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TAXATION IN NORTH CAROLINA

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FOREWORD

The following report on Taxation in North Carolina is the joint product of several students of state affairs who are keenly interested in the state's foremost concern at present—taxation. In submitting this report our sole object is that of service to the state. We have tried to present the facts about taxation so far as they are available at this date. The reader must draw his own conclusions. The views expressed are those of the respective writers.

The papers contained in this volume, except the ones by Governor Conner and Mr. Stedman, have been presented before the North Carolina Club at the University of North Carolina and The North Carolina Conference for Social Service. The chief inspiration for such a volume was a request from the North Carolina Education Association for a study of taxation in the state.

The North Carolina Conference for Social Service is responsible for the publication of this report.

S. H. Hobbs, Jr., *Director.*

THE NORTH CAROLINA TAX SITUATION

Clarence Heer, *University of North Carolina*

It may be taken for granted that the people of North Carolina esteem the ordinary services of government—education, highways, public welfare, and other public functions—fully as much as do the citizens of other states, and that they are willing to tax themselves as severely as the citizens of other states in order to secure these services. Such being the case, there can be only two possible reasons for the present demand of large numbers of North Carolina taxpayers for substantial and immediate tax relief. The taxpayers in question may believe that North Carolina's tax burden, taken in the aggregate and regardless of how it is distributed among various individuals and classes, has become too great in relation to the basic economic capacity of the state. On the other hand, they may believe that the total burden, while not necessarily too great in the aggregate, is unfairly distributed among various classes of taxpayers and that they are the victims of this unfair distribution.

Is the Total Burden Too Great?

According to the figures of the Tax Commission, the aggregate of all taxes collected by all agencies of government, state and local, in North Carolina during the fiscal year 1930 amounted to the sum of $102,000,000. The aggregate tax bill of the state and its subdivisions in 1931 was approximately $95,000,000. In 1920, the total state and local tax bill was only about $33,000,000. In other words, the total tax burden increased by 200 per cent from 1920 to 1930. The total is now less by some seven or eight million dollars. This increase may easily lend itself to misinterpretation unless several important factors are kept in mind. In the first place, it must be remembered that during the ten years in question the population of the state increased by 24 per cent. Only six states of the Union experienced a more rapid rate of growth. The increase in the per capita burden of taxation as between 1920 and 1930 was not so great as the increase in the total burden. It rose from $12.81 per capita in 1920 to $32.27 per capita in 1930, an increase of approximately 150 per cent.

It must be remembered, in the second place, that much of the increase in public expenditure between 1920 and 1930 was nominal and not real. It represented adjustments to the new post-war level of prices. The salaries of governmental employees did not advance with the wages in outside employments. Most of the adjustments in governmental salaries came tardily, and after 1920.

Analysis of Tax Increase

Before drawing any conclusions relative to this increase, however, it should be analyzed into its constituent parts. On page 359 of the recent Report of the Tax Commission there is an analysis of the total increase in state and local taxes between 1920 and 1929. Table I of the present memorandum represents an adaptation of the Tax Commission's table. It will be noted from Table I that the total increase in all taxes between 1920 and 1929 was $64,796,207. In other words, the tax burden practically tripled in ten years. As will be seen from the table, 36 per cent of this tax increase was due to increased expenditure for state and county highways, 31 per cent of it was due to increased expenditure for local schools, and 17 per cent of it represented increased expenditures by cities and towns for purposes other than schools. These three items account for 85 per cent of the total increase.

The increase in taxes for highways requires no comment. Three quarters of this increase comes out of the pockets of motorists. Apparently they feel that they receive a *quid pro quo*. Taxes for local schools, including taxes raised by the state for equalization purposes, increased by 141 per cent during the ten years under review. In judging this increase it must be borne in mind that the number of pupils in average daily attendance increased from 473,552 to 672,895, or 42 per cent. The length of the average school term increased from 134 to 154 days. High school daily attendance grew from an average of 22,513 to 87,250 pupils. Aside from this, the quality of the educational offering as measured by the professional qualifications of teachers and the abolition of ungraded schools was tremendously improved. In spite of these improvements, however, North Carolina is still far below the national average with respect to educational expenditures per pupil in average daily attendance. During the school year 1929-1930, it spent $61.76 for current maintenance and capital outlays for each school pupil in average daily attendance. The corresponding national average for the same year was $109.40 per pupil. Only eight states of the Union had a lower per pupil expenditure than had North Carolina.

TABLE I

ANALYSIS OF INCREASE IN TOTAL STATE AND LOCAL TAX BURDEN OF NORTH CAROLINA, 1929 OVER 1920

Purpose for which expended	Tax levies 1920 $	Tax levies 1929 $	Increase 1929 over 1920 Amount $	Per cent increase	% of total
For highways and bridges					
State	1,777,176	19,918,931			
County	5,385,232	10,759,728			
Total	7,162,408	30,678,659	23,516,251	328	36.3
For public schools	14,340,343	34,613,536	20,273,193	141	31.2
For state educational institutions					
Maintenance	1,036,387	2,286,040	1,249,653	121	1.9
Debt service	40,000	1,101,669	1,061,669		
Total	1,076,387	3,387,709	2,311,322	214	3.6
City and town functions other than schools	4,480,987	15,773,263	11,292,276	252	17.4
All other state and local functions	6,076,125	13,479,290	7,403,165	121	11.4
TOTAL	33,136,250	97,932,457	64,796,207	195.5	100.0

It will be seen from Table I that the current maintenance of state educational institutions was responsible for less than 2 per cent of the total increase in taxes between 1920 and 1929. The current costs of these institutions, exclusive of interest and amortization of bonded indebtedness, showed an increase of only 121 per cent in spite of the fact that the number of students enrolled in these institutions grew from 5,436 in 1919-20 to 9,745 in 1927-28, an increase of 79 per cent. It must be remembered, too, in this connection that academic salaries had not been adjusted to the new post-war price level in 1920. Debt service charges in connection with the state educational institutions are heavy, amounting to over a million dollars annually. There is no way of reducing these fixed charges now. Moreover, the state possesses an educational plant which with proper maintenance will be yielding services for many years after these charges have been extinguished.

It will be seen from Table I that over eleven million dollars of North Carolina's total increase in taxes during the last ten years is attributable to cities and towns and represents expenditures for functions other than education. This increase may have been larger than it needed to be. The fact is, however, that North Carolina's urban population has expanded tremendously during the last ten years. The population of its 21 largest cities grew from 365,168 to 592,814 between 1920 and 1930, an increase of

62 per cent. The population of smaller cities and towns expanded proportionately, and the total population of incorporated places in the state is now well above a million. This sudden growth naturally meant that municipal facilities, such as streets, sidewalks, sewerage and water systems, had to be expanded at considerable expense. In many cases existing facilities had to be scrapped because they were no longer adequate.

Bonded Indebtedness

Over half of the total increase in state and local taxes between 1920 and 1929 was necessitated by the increase in expenditures for interest and amortization of public indebtedness. The debt service requirements of state and local governments are at present in the neighborhood of 41 millions. The Tax Commission, on page 242 of its 1930 report, states that 60 cents out of every tax dollar will be required during the next eleven years to meet interest and amortization obligations. This is apparently an error. Only 40 cents of each tax dollar will be required for this purpose, even provided that all of the present debt has to be retired out of taxes. Moreover, at least 15 per cent of the present debt is special assessment debt which will not affect tax rates.

It is nevertheless true that the indebtedness of North Carolina and its subdivisions is exceptionally high. The total indebtedness of all agencies of government was about 534 millions in 1929. This represents a per capita indebtedness of $168.50. In 1927, according to the National Industrial Conference Board, North Carolina was outranked by only five states with respect to the size of its combined state and local indebtedness. The Board's figures for that year are as follows:

State	Per Capita State & Local Net Bonded Debt	Population Increase 1920-1930
Florida	$341.26	51.4
California	190.20	65.5
New York	176.18	21.5
Oregon	165.39	21.6
New Jersey	152.61	27.6
North Carolina	143.58	23.9
Average entire United States	98.96	16.1

It is significant that all of the states with a high per capita indebtedness are states whose population has increased unusually rapidly during the last ten years. As has already been indicated, only six states exceeded North Carolina's growth in population between 1920 and 1930.

In order to pass judgment on North Carolina's present level of indebtedness, it is necessary to know for what purposes that indebtedness was created. The following table gives an analysis of the total state and local debt as of June 30, 1929.

TABLE II

Analysis of Total State and Local Indebtedness, June, 1929

Purpose	Amount	Per Cent of Total
For highways and roads		
State highways	$110,028,600	20.6
Local roads and bridges	101,545,785	19.0
Total	211,574,385	39.6
For local schools		
Buildings	55,319,145	10.3
Funding	20,395,755	3.9
Total	75,714,900	14.2

Municipal improvements		
Streets and sidewalks	60,898,865	11.4
Water, sewer and sanitation	60,586,713	11.3
Electric power and light	6,904,270	1.3
Fire departments	1,331,547	.2
Permanent improvements	15,616,956	2.9
Public buildings	5,905,000	1.1
Funding and refunding	8,775,128	1.6
All other municipal	5,832,610	1.2
Total	165,851,089	31.0
State educational and charitable institutions	23,387,500	4.4
County and township buildings	13,686,934	2.6
Miscellaneous	44,311,593	8.2
Grand total	534,526,401	100.0

(It should be borne in mind that public debt reached its peak in North Carolina in 1929. The avowed policy now is to reduce the debt.)

It will be noted from this table that nearly 40 per cent of North Carolina's present state and local indebtedness represents expenditures for highways, roads, and bridges. North Carolina might have waited longer for its highway improvements and financed them from current revenues, as Virginia has done. As far as the state highway system was concerned, motorists were willing to pay the high gasoline tax involved in order to get the highways immediately. In making comparisons between the highway indebtedness of North Carolina and other states it must be remembered that although its per capita highway indebtedness is higher than the average, its gasoline tax is also higher than the average. Motorists are willing to pay the additional tax in order to get the service of the roads.

The large county road and bridge debt, representing 19 per cent of the combined debt of the state and its subdivisions, is paid out of property tax levies. The creation of much of this debt was ill-advised and mistaken. The Tax Commission points out that a considerable proportion of this debt represents bonds issued to cover outstanding notes, deficits in road budgets, loans to other county funds, and road improvements which are not now to be found. The damage has been done and is now irrevocable. Interest and amortization charges in the neighborhood of $8,000,000 a year will have to be paid. The Connor Road bill, however, has considerably reduced road maintenance costs (by $2,250,000, according to Governor Gardner), and the Whedbee Local Government bill should prevent a repetition of unsound financial practices in the future. But the fact that there have been waste and extravagance with respect to one function does not indicate that the same conditions exist with regard to all functions, and that a general scaling down of expenditures regardless of the needs and degree of past expansion of each particular function is in order.

About a third of the present volume of state and local indebtedness represents municipal indebtedness for streets, sidewalks, water, sewer, and lighting systems. The phenomenal growth of North Carolina cities during the last decade has already been alluded to. The debt of municipalities is financed in part, at least, by special assessments. Other parts of it, such as indebtedness for water and light systems, is productive. Some cities have undoubtedly over-estimated their rate of growth, and the present business depression has arrested normal development. Also, there have undoubtedly been some waste and extravagance. This is indicated by the item of $8,775,000 representing funding and refunding bonds. However, unless North Carolina's cities have permanently ceased to grow, the municipal indebtedness should not be difficult to carry, since it is borne by the wealthiest communities in the state. No part of it is borne by the farmer.

Indebtedness for public schools represents only 14.2 per cent of the combined state and local debt. If to this be added the indebtedness for state educational institutions, indebtedness for education will be found to represent 17 per cent of the total state and local debt, less than half

of the total indebtedness for highways and roads. It is unfortunately true that $20,395,000 of the local indebtedness for schools does not represent permanent improvements, but is the result of the funding of current deficits. This unproductive debt represents 4 per cent of all state and local indebtedness. The Whedbee Local Government act should put a stop to improper financing of this kind.

Comparison of Total Tax Burden with Other States

In spite of the rapid advance in public expenditure and in spite of the mistakes and waste which have occurred with respect to certain functions, the per capita tax burden of North Carolina is not high in comparison with other states. North Carolina's per capita state and local tax burden for the fiscal year 1929-30 was approximately $31.00. In 1927 it was $29.00. The National Industrial Conference Board has made a comparison of state and local tax burdens for that year as follows. (It should be borne in mind that the cost of government in North Carolina was reduced by more than seven million dollars during 1931. Beyond a doubt, government in North Carolina is relatively cheaper now in comparison with other states than it was two or three years ago.)

State	Per Capita State and Local Tax Burden 1927
Alabama	$17.68
Georgia	18.18
Arkansas	19.96
South Carolina	22.06
Tennessee	23.88
Kentucky	25.82
Virginia	28.43
North Carolina	29.19
Average entire United States	48.24

It will be noted that North Carolina's per capita state and local tax burden represents only 60 per cent of the national average, and that only seven states of the Union have lower per capita tax collections than this state.

The Taxable Capacity of North Carolina

The fact that North Carolina's per capita tax burden is low does not necessarily indicate that this burden is easy to carry. It is obvious that a per capita tax burden which would be comparatively light for a state with a high average of wealth and income may prove onerous in the extreme to a state in which the average of private wealth and income is low. How does the taxable capacity of North Carolina compare with that of other states? The National Industrial Conference Board has compiled data on the value of physical property by states. Brookmire's Economic Service, a reliable statistical agency, has prepared estimates of private income by states. The figures shown in Table III below are based on the findings of these two agencies. They show that the average of private income, per capita, in North Carolina was only $272 in the year 1930. The comparable national average was $559. In other words, North Carolina's private income per capita was only about half of the national average. This result is easily understood when it is realized that North Carolina ranks fifth among the states of the country with respect to the proportion of its population engaged in farming. Half of the people of the state gain their livelihood from agriculture. The average farmer all over the United States is hit extremely hard by the low prices of agricultural products. North Carolina's preponderance of farmers keeps her average per capita income low. North Carolina's average of physical wealth per capita stood at $1,737 for 1929. This represented 58 per cent of the comparable national average.

Is North Carolina bearing a heavier load of taxation in relation to its wealth and income than the average borne by other states in the Union?

In 1927, North Carolina's per capita state and local tax burden was $29.19 and its per capita private income $397.50. Its average ratio of taxes to private income was, therefore, 7.3 per cent. This corresponds exactly with the comparable ratio for all states combined, as reported by the National Industrial Conference Board for the year 1927. Measured in relation to its tangible wealth, North Carolina's tax burden is likewise in substantial conformity with the national average. Its per capita state and local tax burden represents 60.5 per cent of the comparable average for the entire United States. Its per capita tangible wealth represents 58.3 per cent of the corresponding national average.

The per capita private income of North Carolina experienced a decline of some 32 per cent as between 1927 and 1930. In the meantime, the per capita state and local tax burden increased from $29 to $31. North Carolina's ratio of taxes to private income for 1930 was, therefore, 11.3 per cent. The comparable ratio for the country as a whole is not known. The Brookmire Agency, however, estimates the drop in the national income between 1927 and 1930 at 11 per cent and between 1929 and 1930 at 21 per cent. It is therefore apparent that North Carolina's relative tax burden, though heavier, is still substantially in line with the general average.

Does the 32 per cent drop in the private income of the people of North Carolina call for a corresponding drop in public expenditures? Governments should at all times practice the utmost economy consistent with adequate standards of public service. To raise and lower standards of public service with the ups and downs of the business cycle, however, would in the long run prove highly uneconomical, since it would mean the tearing down in one period of what had been laboriously built up in that previous to it.

The fact that private income in North Carolina is below the national average has an important implication. It means that the state cannot attain national standards in the matter of highways, schools, and public welfare services without submitting itself to more than the average burden of taxation. No scheme of tax distribution, however ingenious, is capable of overcoming this fundamental fact. A state which distributes its tax burden among its individual citizens in accordance with the respective taxpaying capacities of those citizens is, however, capable of carrying a given load with much greater ease than a state which violates that rule. This leads to the second question.

Is North Carolina's Tax Burden Fairly Distributed?

The total public revenue, state and local, of North Carolina for the fiscal year 1929-30 was, as already indicated, approximately $102,131,000; in 1930-31 it was $95,182,000. A detailed analysis of the yields of the specific taxes by means of which this sum was raised is given in Table III. As will be seen, 62.9 per cent of all public revenue was raised through the general property tax. The per cent is now around 50 as a result of the 1931 legislative acts, and is perhaps the smallest ratio borne by property in all the states. About 19.7 per cent of the total revenue, state and local, comes from motorists through the gasoline tax and license plate charges. Aside from their property tax payments, in 1929-30 corporations contributed 10.3 per cent of the combined total of state and local tax collections through the 4½ per cent corporation income tax and the corporation franchise tax, which is based on capital stock. Individuals, aside from their property tax payments, contribute 4 per cent of the combined total through the inheritance tax, the personal income tax, and local poll taxes. The remaining

TABLE III

COMPARATIVE SIZE OF TOTAL TAX BILL—LOCAL AND STATE—1930-31, 1929-30, AND 1928-29

	1930-31		Per Cent of Total	1929-1930		Per Cent of Total	1928-29		Per Cent of Total
Total local and state taxes		$95,181,838			$102,131,265			$98,616,242	
Total local taxes		62,136,896	63.3		65,354,302	66.0		65,911,522	66.7
Total state taxes		33,044,940	34.7		36,776,963	36.0		33,199,720	33.3
A. *Local taxes*:									
(1) General property tax levy (all units)		59,911,339	62.9		62,714,959	61.4		63,306,383	64.0
a. County-wide	$34,800,054			$35,990,434			$37,127,659		
b. District and township	11,015,119			10,951,262			11,910,256		
c. City	14,096,166			15,773,233			14,265,468		
(2) Poll tax levy		1,040,471			1,108,457			1,100,000	
a. County	848,295			904,252			900,000		
b. City	192,176			204,205			200,000		
(3) License taxes		1,026,727			1,373,109			1,350,000	
a. County	146,509			273,109			250,000		
b. City	880,218			1,100,000*			1,100,000*		
(4) County dog tax levy		158,561			167,776			155,139	
B. *State taxes*:									
(1) Collected for general fund		14,330,076	16.1		16,858,032	16.0		15,378,483	15.6
a. Schedule A—inheritance tax	984,395			1,193,528			922,172		
b. Schedule B—license tax	1,818,788			1,764,326			1,448,704		
c. Schedule C—franchise tax	4,679,557			4,862,392			3,678,911		
d. Schedule D—income tax	5,970,202			7,478,321			7,656,259		
e. Non-tax revenue	1,377,134			1,559,465			1,672,437		
(2) Collected for the highway fund		18,714,864	19.7		19,918,931	19.5		17,326,237	17.6
a. Gasoline	12,447,155			12,895,031			10,334,359		
b. Auto license	6,164,549			6,881,136			6,635,347		
c. Registrations	103,160			142,744			156,531		

5 per cent comes from miscellaneous sources, mainly state and local occupational and business license taxes.

Table IV shows how North Carolina's total state and local tax burden is distributed among various classes of taxpayers. It will be noted that corporations, through the general property tax, franchise taxes, and the corporation income tax, pay 33.8 per cent of North Carolina's total tax bill. Individuals and owners of property in urban districts, other than corporations, pay 24 per cent of the total tax bill. Farmers and other individuals outside of incorporated cities and towns pay 21 per cent of the total. Dr. Fred Morrison, Secretary of the State Tax Commission, says that farmers actually paid around eleven million dollars in property taxes in 1930, or less than 11 per cent of the state's tax bill. The amount and ratio are less now, as a result of the 1931 legislative acts giving relief to property. Motorists pay 19.5 per cent of the total.

Is Property Unfairly Taxed?

In 1929, real estate bore 48 per cent of the total burden of state and local taxation in North Carolina, and property in general 61.4 per cent. In 1931-32, property bore around 50 per cent of the total tax bill. It is undeniable that property is bearing the lion's share of the total tax load in this state. It is frequently claimed that this share is unjust and excessive. In forming a judgment on this point, certain facts and comparisons may prove helpful. Throughout the United States property taxes represent the mainstays of local revenue systems. There are sound reasons for this in spite of the obvious defects of the general property tax. In the first place, property taxes are elastic and do not fluctuate with business conditions. They supply a necessary balancing element to the budget. Taxes on real property are impossible to evade, and this is a very important consideration in the present era of interstate corporations in which income and intangible assets can be shifted from one state to another with comparative ease and in which taxable intra-state transactions can often be converted into non-taxable inter-state business. Tangible property actually within its borders is one of the few tax bases on which a state can count with absolute certainty. Under present conditions, to rely too strongly on less certain sources is to jeopardize the stability of the revenue system. It was for these reasons that Professor Lutz recently advised the State of Georgia not to give up the general property tax as a source of state revenue.

TABLE IV

Who Paid North Carolina's Taxes in 1929-30?

(It is not yet possible to work out ratios resulting from 1931 legislation. The ratios are higher on corporations, franchise, income, and licenses.)

	Amount	Per Cent of Total	Amount	Per Cent of Total
Corporations			$ 34,543,660	33.8
General property taxes	$23,988,560	23.5		
Schedule C, franchise taxes	4,862,392	4.8		
Corporation income tax	5,692,708	5.5		
Individuals in urban districts			24,531,408	24.0
General property tax	18,888,449			
Poll tax	457,785	.4		
City	204,205			
County (114,530 polls @ $2.2139)	253,580			
License taxes	2,628,076	2.6		
City	1,100.000			
¾ of state & county	1,528,076			
Individual income tax 90% of total collections	1,602,276	1.6		
Inheritance tax 80% of total collections	954,822	.9		

Farmers and other individuals, outside of incorporated cities and towns			21,414,718	21.0
General property tax	19,837,950	19.4		
On land and livestock	15,207,820	14.9		
On personal property	4,630,130	4.5		
Poll tax, (293,903 polls @ $2.2139)	650,672	.6		
Schedule B, license taxes	509,359	.5		
¼ of county	68,277			
¾ of state	441,082			
Inheritance tax, 20% of total	238,706	.3		
Income tax, 10% of total	178,031	.2		
Motorists			19,918,931	19.5
Gasoline tax	12,895,051	12.6		
License plates	6,881,136	6.8		
Title registrations	142,744	.1		
Miscellaneous fees, dog tax, etc.	1,722,548	1.7	1,722,548	1.7
Grand total		100.0	$102,131,265	100.0

(The actual relief afforded property as a result of 1931 legislative acts is around 12 million dollars. The per cent raised by income, franchise, and business license taxes is now higher than in 1930.)

As pointed out in the recent report of the Tax Commission, property's share of the total tax load has been diminishing steadily in North Carolina during the last ten years. Thus, to quote the report, "In 1919, 85 per cent of the total state and local tax revenues were derived from levies on property; in 1922, 77 per cent; in 1924, 75 per cent; in 1926, 69 per cent; in 1928, 64 per cent; and in 1929, 61 per cent." The present ratio is 50 per cent, the lowest of all the states. The fact is that no other state has gone farther than North Carolina during the last twelve years in developing sources of revenue other than property. Taxes collected on property dropped from $59,911,000 in 1930 to $47,684,000 in 1931, a decrease of $12,227,000, or 20.4 per cent.

The Plight of the Farmer

In comparison with other states, it certainly cannot be said that property in general is bearing an undue share of North Carolina's tax load. It is undeniable, however, that certain classes of property owners, notably the farmers, are finding the burden difficult to bear. This difficulty is not entirely due to the operations of the general property tax. It is due in no small part to the unequal regional distribution of corporate and industrial wealth. The result is that rural counties with little wealth other than farms are forced to tax themselves more heavily than more industrialized counties in order to maintain state average standards. Practically all the counties with high tax rates on farm property are in eastern North Carolina. The state has afforded much relief to property for current operating expenses. The debt service charges are largely responsible for high property tax rates in North Carolina today. Mr. Brummitt places the average debt service charge at $1.02 for the years 1931-35.

In part, however, the difficulty is due to inherent defects in the property tax. Taxes must be paid in cash, and in order to pay them the property owner must have some cash income. Over short periods there is no necessary relationship between the value of a piece of property and its cash income. At the present time, the cash income of the average North Carolina farmer is exceedingly small. In many cases it is a minus quantity. The assessed value of his property does not reflect this condition. The result is that many farmers are finding it impossible to make their tax payments, and in most cases the payment of property taxes represents a heavy burden.

The serious plight in which the North Carolina farmer finds himself does not require statistical demonstration. The following figures merely

bring quantitative precision to what everybody knows from first-hand observation. They give in millions of dollars the gross cash farm income before deduction of expenses and taxes of North Carolina farmers during the last six years.

Year	Gross cash farm income
1925-26	296.0
1926-27	287.6
1927-28	320.6
1928-29	283.0
1929-30	257.3
1930-31	192.8

It will be noted that North Carolina's gross cash farm income for last year was 25 per cent smaller than the cash income of the previous year and 40 per cent below the income of the banner year, 1927-28. According to figures compiled by the North Carolina State College Extension Service, the net cash income (after deducting expenses and taxes) of the farmers of the state in 1930 was $61,719,697. Since there are 279,723 farms in the state, this represents an average net cash income per farm of $221.

As will be seen from Table V, the absolute amount of taxes paid by the average rural taxpayer is less than half as great as the amount paid by the average urban taxpayer. Owing to his low cash income, however, which averages less than $221 per farm, the sacrifice involved in paying this lesser amount is severe.

TABLE V

TAX PAYMENTS PER CAPITA, 1929

(Exclusive of payments of corporations and motorists)

	Incorporated cities and towns	Areas outside of incorporated cities and towns
Population, 1930	1,044,077	2,126,199
Local taxes		
General property	$18.09	$9.33
All other	1.69	.34
Total	19.78	9.67
State taxes (income, inheritance, and schedule B license)	3.72	.40
Total taxes	$23.50	$10.07

THE STATE'S PRESENT FINANCIAL CONDITION

JOHN P. STEDMAN, *State Treasurer*

The bonded debt of North Carolina as of July 1, 1932, was $172,909,000, divided as follows:

Highway bonds	$108,287,000
General fund bonds	46,787,000
Public school building bonds	15,335,000
World War veterans' loan bonds	2,500,000

The purpose of the highway bonds was to build roads and bridges and to develop the highway system in North Carolina. The public school bonds were authorized for the purpose of creating funds which in turn were loaned to the various counties of the state for the purpose of erecting school buildings. The veterans' loan bonds, $2,500,000, were issued by a direct vote of the people for the purpose of lending money to veterans of the World War to purchase homes. The general fund bonds were issued for the purpose of making permanent improvements in our institutions and the payment of certain deficits. All of these obligations, with the exception of the general fund bonds, are taken care of by special payments and special taxes: for instance, the highway bonds are being paid by licenses and gasoline taxes; the special school building bonds are being paid by repayments of loans by the counties; the World War veterans' loan bonds are being paid by repayments of loans by the veterans who have borrowed money from this fund.

On June 30, 1932, the state had invested in the general and highway sinking funds $10,873,157. In addition to this, the state owned $12,605,151 in county notes to be applied against the special school building bonds, and had either in cash or veterans' notes $2,393,427 to pay the veterans' loan bonds. The state has investments in the North Carolina Railroad and the Atlantic and North Carolina Railroad valued at $4,266,800. All of these securities can rightly be considered as sinking funds, which would make a total investment of $30,138,535 in sinking funds and leave a net bonded debt as of July 1, 1932, of $142,770,465. After making the deductions for the sinking fund, the bonded debt of North Carolina can be divided into 30 per cent general fund indebtedness and 70 per cent highway indebtedness.

The bonded debt of North Carolina is payable over a period of years. The last payment will be made in 1972. The retirement of the indebtedness steadily increases up to 1950, at which time $8,180,000 will mature. In the year ending June 30, 1931, $3,762,600 of bonds matured. In 1932, $4,600,000 were retired, and during the present fiscal year we shall pay $5,325,000. It has been estimated that by 1952 the Highway Bonds will have been paid or provided for by sinking fund contributions. Each year the Highway Commission contributes $500,000 to the sinking fund, and $267,000 is being contributed by the general fund for sinking fund purposes.

Since 1902 the state debt has steadily increased. At that time the bonded debt of the state was only $6,527,770; in 1912, $7,832,950, and in 1922, $32,950,598. In addition to the present bonded debt of $172,909,000, the state owes at this time $7,502,371 on short-time notes. Of this, $7,230,000 represents general fund notes to run the state government on account of insufficient revenues during the past two years, and $272,371 represents permanent improvement notes. The state is arranging to borrow, as of November 10, 1932, $5,000,000 additional money on short-term paper, which will make a total of $12,502,371. This will make the total indebtedness of the State of North Carolina (as of November 10, 1932) $185,411,371 in bonds and short-term notes.

While the bonded debt of North Carolina has steadily increased, the cost of conducting the state government has also increased. In 1902 the cost was $1,863,849; in 1912, $3,246,000; in 1922, $33,990,000, and in 1932, $53,300,000.

On July 1, 1930, the state had a cash balance of $12,958,200. At the close of the present fiscal year, June 30, 1932, the cash balance was $8,697,322. During this time the state had borrowed $7,502,371 on short-term notes for temporary financing.

The money of the state is divided into three separate funds: the general fund, from which is paid the total cost of running the departments and institutions and of debts created for this purpose; the agricultural fund, from which the expense of running the Department of Agriculture is paid; the highway fund, from which are paid the expenses and debts of the Highway Commission.

The fiscal year of the state is from July 1 to June 30. According to the figures furnished by the budget bureau, the general fund during the past year had an expenditure of $26,876,310; the highway fund, $26,125,847; the agricultural fund, $325,561. This makes the total cost of state government $53,327,718. These figures include the debt service paid by both the general and highway funds.

In 1928-29 the total income for the general fund amounted to $15,375,-983. This income consisted of inheritance tax, $922,000; license tax, $1,448,000; franchise tax, $3,679,000; income tax, $7,656,000; and non-tax revenue consisting of earnings, fees, interest on bank balances, etc., $1,675,000. In 1931-32 the same fund had an income of $22,555,900, consisting of inheritance tax, $462,000; license tax, $2,318,000; franchise tax, $6,677,000; income tax, $7,783,000; ad valorem tax, $3,850,000; and non-tax revenue $1,476,000. From the above figures it is apparent that in 1931-32 the income and the non-tax revenue receipts were practically the same as in 1928-29. The inheritance tax, however, decreased 50 per cent; license tax increased 60 per cent; the franchise tax increased 81 per cent. In 1928-29 there was no ad valorem tax.

Comparing the income of 1931-32 with that of 1928-29, the general fund income had a total increase of 46 per cent. In the year 1928-29 the general fund closed with a credit balance of $2,121,079. In the year 1931-32 the general fund closed with a debit balance of $6,551,608. This debit balance includes accruals amounting to $1,562,434.

In 1928-29 the total expenditures from the general fund amounted to $12,379,017. In 1931-32 the total expenditures amounted to $23,232,913. These figures do not include the debt service. In 1928-29 aid to public schools of the state amounted to $3,255,839 and in 1931-32 the cost of schools was $16,942,824. In 1928-29, after deducting the cost of schools and debt service, the cost of running the state government, including all departments, institutions, and pensions, amounted to $9,123,178. In 1931-32 the same expenditures for the departments, institutions, and pensions was $6,290,089. In other words, the cost of running the departments and institutions for the State of North Carolina last year, as compared to 1928-29, is $2,832,089 or 31 per cent less. The highway fund expenditures for 1928-29, not including debt service, were $24,104,241, as compared with $18,165,847 in 1931-32. In 1928-29 the federal government contributed $1,716,919 and in 1931-32 $1,795,232 for roads.

Bearing in mind that the total expenditures for state government from revenues last year were more than $53,000,000, the tax dollar was spent as follows:

	Per cent
Highway Commission	34.1
Public schools	31.8
Debt service	21.8
Departments, institutions, and judiciary	10.7
Pensions	1.6

The last legislature instructed the state to repay certain counties for highways built by those counties. There is $4,025,971 due on these obligations. The total obligations of the state, therefore, on November 10, 1932, are $189,437,342.

In order to review briefly the financial condition of the state, attention is called again to the fact that the debt increased from $32,950,598 in 1922 to $189,437,342 at present. The cost of conducting the government from 1922 to 1932 has increased from $33,991,000 to $53,000,000. Our gross debt represents a per capita indebtedness of $57.40. The net debt (deducting sinking fund from gross debt) represents a per capita indebtedness of $48.27. The cost of running the state government represents an average of $16.16 for each citizen of the state. There is now an accumulated deficit in the general fund of $6,551,608, which includes a deficit in 1930-31 of $2,231,198. Last year the Highway Commission spent $2,611,964 more than revenues. From July 1, 1930, to June 30, 1932, approximately $12,000,000 more was spent than was received from revenues. It must be borne in mind that the increase in the cost of state government has been due to the increased cost of public schools and to debt service. The increased cost of schools for the state, on the other hand, has reduced the cost of county government.

The state undertook last year the operations of a state highway system. By operating the schools and highways, including the county roads, the state reduced county taxes.

A large deficit will accrue at the end of this year. This deficit has been estimated at various times from $5,000,000 to $7,700,000. The present deficit is $6,551,608. At the close of the present year, if the state continues to run on the present schedule of receipts and disbursements, there will be an accumulated deficit of $12,000,000 to $14,000,000. While the state was creating this deficit, it retired $11,810,000 of bonds and added $2,673,874.

The great problem that will confront the legislature which convenes in January, 1933, will be: (1) what expenditures can be eliminated from the state government; (2) where sufficient revenue can be found to meet the expenses after reductions have been made by the legislature.

There is a universal demand that the ad valorem tax from counties be abolished. Last year this tax netted the state $3,850,000. If it is abolished, it will mean that additional revenues must be raised or there must be an additional cut in expenses amounting to approximately $10,000,000.

The debt of the state is entirely too large. With a revaluation of property we shall approach very closely the constitutional limit of 7½ per cent. To issue more bonds for permanent improvements will be almost impossible, especially since by vote of the people there is authorization of the World War veterans' loan issue of $1,500,000 bonds. Under no circumstances should we issue more bonds except to take care of the deficit. These bonds must necessarily be short-term bonds. Part of the deficit should be paid by raising additional revenue. The time has now come when the people of the state must make up their minds to sacrifice for a few years governmental services that they have demanded in the past. Pay day has arrived. Luxury in government must be abandoned for several years if we are to protect the credit of the state. A most rigid economy in all forms of governmental activities must be practiced.

I do not think this article would be complete without paying my respects to the foresight of Governor O. Max Gardner, who, as Director of the Budget, has actually cut expenses under appropriations as follows: In 1929-30, $1,424,510; in 1930-31, $2,136,690; and in 1931-32, $2,508,454. The cuts were all made from other appropriations than to the public schools. But for his firm stand for economy and in making these drastic cuts, I believe it would have been impossible for the state to continue on a cash basis and to secure a credit of more than $12,500,000. These cuts influenced the bankers of New York and North Carolina to make loans to the state, which in turn saved the credit of North Carolina.

STATE OF NORTH CAROLINA, DEPARTMENT OF REVENUE, STATEMENT OF COLLECTIONS FOR TWELVE MONTHS ENDING JUNE 30, 1932

	Taxes	Penalty	Totals	Refunds	Net Collections	Net Collections Same period Last Year
INHERITANCE TAX SCHEDULE "A"						
Taxes	470,880.87	11,669.67	482,550.54	55,034.55	427,515.99	984,393.44
Penalty bad checks	1.31		1.31		1.31	
Totals	470,882.18	11,669.67	482,551.85	55,034.55	427,517.30	984,393.44
LICENSE TAXES SCHEDULE "B"						
License	1,556,042.24	21,050.74	1,577,092.98	38,086.86	1,539,006.12	1,062,684.40
Merchants' license tax	433,169.25		433,169,25		433,169.25	
Process taxes	43,647.38		43,647.38		43,647.38	50,204.92
Marriage license	36,641.00		36,641.00		36,641.00	42,135.00
Trucks for hire	153,501.84	567.06	154,068.90		154,068.90	134.994.47
Building and loan	108,541.15		108,541.15		108,541.15	25,490.55
Lightning rods	20.00		20.00		20.00	70.00
Penalty bad checks	2,464.75		2,464.75		2,464.75	3,208.82
Totals	2,334,027.61	21,617.80	2,355,645.41	38,086.86	2,317,558.55	1,318,788.16
FRANCHISE TAX SCHEDULE "C"						
Railroads	1,631,807.43		1,631,807.43		1,631,807.43	933,793.75
Public utilities	1,387,271.36	30.33	1,387,301.69		1,387,301.69	585,425.82
Pullman	4,913.47		4,913.47		4,913.47	4,807.06
Express	80,631.54		80,631.54		80,631.54	67,873.20
Telegraph	21,059.88		21,059.		21,059.88	18,102.20
Telephones	351,026.78	12.49	351,039.		351,039.27	258,723.16
Domestic corporation	822,537.95	2,943.65	825,481.60	10,590.02	814,891.58	678,670.17
Foreign corporation	655,405.76		655,405.76		655,405.76	330,802.72
Bus tax	117,274.22		117,274.22	803.29	116,470.93	164,182.23
License franchise bus	60,605.04		60,605.04		60,605.04	
Drivers' permits	1,792.00		1,792.00		1,792.00	1,531.00
Insurance taxes	1,296,491.88		1,296,491.88	1,045.67	1,295,446.21	1,396,444.57
Insurance license	153,197.53		153,197.53	1,202.50	151,995.03	166,880.72
Insurance agents	82,628.00		82,628.00	40.00	82,588.00	72,285.00
Penalty bad checks	272.83		272.83		272.83	55.06
Totals	6,666,915.67	2,986.47	6,669,902.14	13,681.48	6,656,220.66	4,679,556.66
INCOME TAXES SCHEDULE "D"						
Individual	1,283,235.53	11,643.15	1,294,878.68	59,597.83	1,235,280.85	992,950.62
Individual dividends	89,067.48		89,067.48		89,067.48	
Domestic corporation	1,339,577.89	16,750.52	1,356,328.41	31,633.47	1,324,694.94	1,309,471.58
Domestic corporation dividends	1,039.72		1,039.72		1,039.72	
Foreign corporation	4,398,234.08	13,926.27	4,412,160.35	14,303.02	4,397,857.33	3,559,779.19
Penalty bad checks	264.04		264.04		264.04	191.65
Totals	7,111,418.74	42,319.94	7,153,738.68	105,534.32	7,048,204.36	5,862,393.04
NON-TAX REVENUE				5,000.00	–5,000.00	
Insurance Department fees				34.00	–34.00	–358.00
				34.00	–34.00	–358.00
TOTALS, ALL COLLECTIONS	$16,583,244.20	78,593.88	16,661,838.08	217,371.21	16,444,466.87	12,844,778.30

THE COST OF GOVERNMENT IN NORTH CAROLINA

Clarence Heer, *University of North Carolina*

The current depression is affecting governments in much the same manner as it is affecting individuals. With the decline in profits, salaries, and wages, public revenues are likewise declining to the point where they are no longer sufficient to meet the existing volume of public expenditures. As a result of the skill with which they have been handled, North Carolina's finances are on a sounder basis than those of many other states of the Union. Yet the operations of North Carolina's state government during the last biennium resulted in a deficit of over two million dollars, and a deficit variously estimated at from three to four million dollars is predicted for the current year.

Faced with actual or impending deficits, governments have three possible alternatives. They may attempt to borrow money in the expectation that prosperity will soon return and that the debt may then be paid off. But the depression has already lasted a long time and no one knows when prosperity will return. Moreover, although governments may be perfectly willing to borrow, it is by no means certain that capitalists will be willing to lend. A second alternative is to attempt to increase revenues by imposing new forms of taxation, or by raising the rates of existing taxes. But in times of depression, when even the old taxes seem an intolerable burden, this second course is not likely to receive much popular support. This leaves one last alternative. The budget may be balanced by a reduction of public expenditure.

Whether we like it or not, that is the course which the country at large, including North Carolina, may be forced to adopt within the next few years. To the extent, however, that there is any room for choice it is extremely important that the public should know what the consequences and effects of this last course will be. Throughout the country at the present time there is a good deal of misunderstanding and misinformation about the matter. It is commonly supposed that governments everywhere have been indulging in vast orgies of waste and extravagance, and that the present cost of government might bé greatly reduced without involving any material loss to the public.

When a business man thinks of costs he thinks of relative costs, that is, costs in relation to the income or profits which those costs make possible. A reduction in expenditures which involves a proportionate reduction of income or profits is not in his mind confused with true economy. Critics of the present high cost of government seldom make this distinction. To judge from some of their utterances, all reductions of public expenditure are good, no matter how arrived at. To them government is not an organization whose function it is to produce services—services so vital to the welfare of the public that their performance cannot be entrusted to private individuals. On the contrary, it would appear that from the point of view of many present-day critics, government is simply a racket organized to steal the taxpayers' money and to consume it in unproductive ways.

Critics of the high cost of government are seldom specific. Their favorite device is to quote figures showing the tremendous rise in tax burdens during recent years. Presumably this rise of taxes, which is as undeniable as it is impressive, is to be taken as prima facie evidence of the existence of governmental waste and extravagance. If this is actually a valid test, it follows that North Carolina has led all the other states of the Union in wasteful and extravagant governmental expenditure during the last two decades.

In 1913 North Carolina's total tax bill—state, county, municipal, and district—was little more than $11,300,000, or $4.91 per capita. At the present time, even with the reductions which have recently been effected, the total state and local tax bill is in the neighborhood of $95,000,000, or $30 per capita. In other words, the per capita cost of government in North Carolina is now six times as great as it was in 1913. In no other state of the Union, save Delaware, has the per cent of increase in taxes since 1913 been as rapid as it has been in this state.

But before too much is made of this increase certain other facts and figures should be cited. In 1913 North Carolina had the lowest per capita tax burden in the entire United States. Even South Carolina and Mississippi spent more per capita on state and local government than did this state. In 1913 North Carolina's average wealth per inhabitant as estimated by the United States Bureau of the Census was lower than that of every other state in the Union, with the sole exception of Mississippi. The governmental services supplied to its citizens were on a par with its low tax burden. In 1914 North Carolina had one and one-quarter miles of concrete road and nine miles of bituminous macadam road. That represented the total extent of its hard-surfaced highway mileage. Its expenditures for public education per pupil in average daily attendance were the lowest in the United States, and approximately one-eighth of its white population over ten years of age was illiterate.

Since 1913 the per capita tax burden of the state has increased by about 500 per cent, but certain other changes have taken place which cannot be left out of account. North Carolina is no longer the poorest state in the Union. Since 1913 its average wealth per inhabitant has increased by approximately 140 per cent, while the total annual value of its manufactures has almost quadrupled. It is no longer a state without a single city of over 50,000 population. It now has five such cities, and the total urban population of the state increased by 158 per cent between 1910 and 1930. It is scarcely necessary to state that the urban mode of life requires an overhead of governmental costs which is considerably greater than that involved in a rural mode of life. The average per capita tax burden of North Carolina's cities and towns is approximately twice as great as the corresponding average of its rural areas.

Instead of the 10 miles of hard-surfaced highway which North Carolina had in 1914, it now has over 3,000 miles of such highway. Since 1913 the number of children in average daily attendance in the public schools of North Carolina has grown by about 85 per cent. The number of students attending public high schools has grown by more than 800 per cent. In 1913 the one-room school predominated, and North Carolina's total investment in school property was little more than 8 million dollars. Today North Carolina's consolidated schools rank with the best in the country, and its total investment in school buildings has grown to 110 million dollars. Since 1913 the average number of days during which the public schools are in session has been lengthened by approximately 40 per cent, and, what is perhaps most significant of all, the percentage of illiteracy has been cut in half. Equally striking changes might be cited in the fields of public health and public welfare.

Doubtless we should all be glad to go back to the 1913 level of taxes. It is pertinent to ask ourselves whether we would be equally glad to see a return of all of the conditions which prevailed in that year. It is undeniable, however, that the people of North Carolina, and especially the farmers, have suffered severe economic reverses during recent years. According to the figures of the United States Department of Agriculture, North Carolina's farm crops of last year had a market value which was 35 per cent less than the value of the crops harvested in 1913. It is true

that the farmers of the state pay no more than 15 per cent of the state's total tax bill, but the depression has reduced the income of all classes. If the depression continues and if tax revenues remain at their present level, further reductions will necessarily have to be made in public expenditures. It is therefore important to know in advance where those reductions will necessarily have to be made.

No comprehensive figures on the present aggregate tax bill of the state are available, but it is probably somewhere in the neighborhood of 95 million dollars. Of this sum 41 millions are incapable of reduction. They represent interest and amortization charges on the combined state and local debt. There can be no material lightening of this part of the burden until 1936. This means that to reduce the present aggregate cost of government in North Carolina by as much as 10 per cent current operating costs will have to be reduced by 17 per cent.

How are these operating costs distributed? Very roughly, 46 per cent of them represent expenditures for education; 26 per cent, highway costs; 13 per cent, expenditures of cities and towns for purposes other than education; 7 per cent, general fund and poor relief expenditures of counties; 6 per cent, the expenditures of the state for purposes other than highways and education.

Current highway expenditures are now defrayed entirely out of the proceeds of motor vehicle license and gasoline tax collections. Highway costs might, of course, be cut down and the proceeds of highway taxes diverted in part to the support of other functions, but this would necessitate an abandonment of the benefit principle under which these taxes are now justified. Undoubtedly economies could be effected through more efficient county government and through county consolidations, but the complete abolition of county governments in North Carolina would not reduce the total operating cost of government in the state by more than 7 per cent. There is doubtless much room for economy in the governments of cities and towns, but the operating costs of these units might be cut in half without reducing the total cost of governmental operations in the state by more than 6½ per cent. Similarly, the general fund expenditures of the state government for purposes other than education might be cut in half without effecting a reduction of more than 3 per cent in the total operating costs of government for the state as a whole.

It is obvious that if any considerable and immediate reduction in the public expenditures of North Carolina is to be made, such reduction must necessarily be made largely at the expense of public education, since educational costs constitute three-fifths of the reducible spendings. It would seem important that the taxpayers should realize this fact clearly in making their decision as to what course to pursue in relation to the impending state deficit. With full knowledge of what the consequences will be, the public may nevertheless decide that a reduction of expenditures is the only possible course. Such a decision would brook no questioning. It would be tragic indeed, however, if under the mistaken impression that they are merely eliminating superfluous boards and commissions, the citizens of the state should unwittingly vote to reduce the educational opportunity of their children.

WEALTH AND INCOME IN NORTH CAROLINA

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Taxes are sourced in and must be paid out of wealth and income. The tax burden is a relative matter. Before one can get far with a tax discussion he must take into consideration the wealth and income out of which taxes are paid. I shall attempt to present a few facts that will throw some light on wealth and income in North Carolina as a necessary preface to discussions which will follow.

Our True Wealth

Calculations based on estimates made by the United States census bureau show the true wealth of North Carolina to be around four billion seven hundred million dollars in 1930. Reduced to a per capita basis, it amounts to about fifteen hundred dollars. It appears that there are forty-one states that have more per capita wealth than North Carolina. If calculated on a per family basis, North Carolina ranks better than if calculated on a per capita basis, due to the fact that we have the largest families in the United States. The large size of our families, by the way, is a real part of our tax problem. True wealth must not be confused with taxed wealth. Nor should one confuse taxed wealth with taxable wealth. There is almost twice as much true wealth in North Carolina as there is wealth listed for taxation. There is much taxable wealth that is not taxed, and some wealth that is taxed too much. Intangible wealth is not included in these per capita figures.

Wealth and income vary widely in different parts of the state. Wealth listed for taxation, for instance, varies from $1,905 per capita in Forsyth county to $442 per capita in Clay county. Seventeen counties have more than a thousand dollars of taxed wealth per capita. Twenty-five counties have less than six hundred dollars of taxed wealth per capita. The tax rates are greatly influenced by the taxable wealth, being inversely in proportion to the per capita taxed wealth: lowest in Forsyth, the richest county, and highest in Clay, the poorest county.

Income in North Carolina

That North Carolina's income has experienced a sharp decline within the last few years is a fact well known to all. The exact amount of the decline is not generally known. Data compiled from various official and reliable sources give us in rather exact ways the extent of the decline in income.

The following table gives the total income of the state and the gross cash farm income of North Carolina for each year since 1920.

Year	Total income (millions)	Gross cash farm income (millions)
1920	$1,025	$305
1921	716	207
1922	794	270
1923	1,032	346
1924	955	266
1925	1,040	296
1926	1,086	288
1927	1,153	321
1928	1,124	283
1929	1,042	257
1930	863	198
1931	——	135

The most impressive fact is the decline in the cash farm income from 321 million dollars in 1927 to 135 million, estimated, for 1931-32. The farm income has declined much more rapidly than the non-farm income. The United States Department of Agriculture reports that the farm value of all crops produced in North Carolina was 258 million dollars in 1929, 213 million dollars in 1930, and 136 million dollars in 1931. As a general rule, the gross value of all crops is approximately equal to the gross cash farm income from crops and livestock. Just how the decline in the farm income bears on the tax problem is illustrated by observing that in 1927 it required only 3.4 per cent of the cash income of farmers to pay their taxes, while in 1931-32 it will take nearly nine per cent of the gross cash farm income to pay taxes.

Since tax burdens are relative, it is necessary to know how North Carolina compares with the other states in income. In 1928 the per capita income of North Carolina was $376, which was 56 per cent of the average for the United States. By 1930, the per capita income had dropped to $272, which was only 50 per cent of the national average. Thus it is obvious that our income per capita is much below the national average and that within the last three years our income has dropped somewhat more rapidly than that of the nation as a whole. The private income of North Carolina dropped 32 per cent from 1927-1930, while the decline for the United States was 21 per cent. Again it should be borne in mind that North Carolina shows up better on the basis of per family income than on the basis of per capita income. Due to our large families and surplus of children, there are relatively fewer breadwinners in North Carolina than in the nation as a whole; in other words, more mouths to feed, backs to clothe, and children to educate per breadwinner and taxpayer.

The rank of North Carolina in per capita income is the same as her rank in per capita wealth, namely, about forty-second or forty-third. We seem to do better in farm income per farm than in general income per capita, averaging thirty-eighth over a period of years. However, due to the commercial nature of our farm operations, we fail to retain a fair share of the farm wealth produced, so that in accumulated wealth per farm dweller we rank lower than in wealth production.

The low rank of the state in wealth and income is due to many factors, among them being excessive dependence upon agriculture, which has been hard hit everywhere and especially so in this non-food, cash-crop farm state; small farms, which characterize our agriculture; excessive ratio of farm tenants, few of whom possess any wealth or make more than a bare living; a large Negro ratio of nearly one-third the total population, most of whom are on the border line of poverty; a large industrial population, most of whom are in low-income occupations; and finally, as has been observed, large families, or a small ratio of gainfully employed in proportion to the total population.

Industrial Wealth

The main source of wealth production and of income in North Carolina is manufacturing. The total value of factory products for 1929, the last year for which we have accurate data, was $1,301,000,000. We rank twelfth among the states in value of factory products. The major development in North Carolina during the last twenty years has been the rise of the factory system. Such wealth as is produced in North Carolina is produced mainly by factories. One half of our population lives on farms, but the value of factory products today is around eight times the value of farm products. One factory in North Carolina turned out more wealth last year than all the farms in North Carolina combined. In the distribution of population North Carolina is rural, but in wealth and income the state is urban and industrial.

Income Taxes

Perhaps the best check we have on personal and corporate income in North Carolina, and on how we compare with other states, is by studying the federal income tax reports. A typical year will show about thirty-three thousand individuals filing federal income tax returns, or about 1.15 per cent of our population, and our rank on this basis is forty-third. Of those who file returns about fifteen thousand pay a tax, or one person out of every two hundred in the state pays a federal income tax. We have 2.6 per cent of the nation's population but only .54 of one per cent of the nation's income taxpayers. Our corporations do better than our individuals, paying 1.25 per cent of all income taxes paid by corporations. Ninety-nine per cent of North Carolinians do not make enough to pay personal income taxes even to the state, which has lower exemptions. If the ninety-nine are to contribute to the support of the state, they must be reached by some tax other than an income tax.

Retail Trade

Possibly the best check we have on wealth, income, and particularly on purchasing power is the 1930 census of distribution. This, the first such census ever taken in this country, shows that the retail expenditure of North Carolinians in 1929 was 744 million dollars. Reduced to a per capita basis, it amounts to $235 and our rank among the states is forty-first. Our per capita retail trade is 58 per cent of the national average, which is almost exactly the same percentage as for all wealth and all income.

The second largest item in this list of expenditures is 137 million dollars on motor cars, which does not include auto licenses, property taxes on motor cars, and taxes for upkeep of county roads and city streets. All told, we spend not less than 160 million dollars on motor transportation in North Carolina each year, or more than five times as much as we spend on public education.

In fact, North Carolina ranks better in the ownership of motor cars than she ranks in any other major item. The latest comparable data show 484,000 motor cars in North Carolina, or one for every 6.83 inhabitants, and our rank is thirty-seventh among the states. We probably spend as large a percentage of our income on motor transportation as any state in the Union. Our highway system, for instance, is the only item on which the state spends disproportionately large amounts, which makes it that much harder to find money with which to support other worthy causes. We are proud of our highway system. It has been a wise development. If we are faced with an emergency, however, it might be well to let up on the only thing in which we stand at or near the top in the United States.

Banks and Insurance

A basic manifestation of wealth is bank resources. Using the year 1928, we find that we had bank resources totaling almost exactly a half-billion dollars. Reduced to a per capita basis for comparative purposes, we find the average to be $177.00, and our rank among the states at that time forty-second. I suspect our rank today is not quite so good.

The amount of life insurance in force gives another good check on wealth and income. The latest figures we have show that North Carolina has nearly one billion dollars of life insurance in force. Reduced to a per capita basis for comparative purposes, it amounts to $317.00, and our rank among the states is forty-fourth.

Growth of Population

Probably the best index of the economic health of a region is its growth in population. It is the final yardstick which indicates and by which one measures the social-economic progress, or lack of progress, of a region. The most significant fact that has been announced by the recent census is the enormous increase of 23.9 per cent in our population during the last decade. Only six states in the Union grew more rapidly during the last decade, and only five had larger total gains in population. We jumped from fourteenth to twelfth position in total population. A major item in the increase was the large migrations to North Carolina, a new experience for this state, which for one hundred years had been a population-exporting state. It is significant to note that the only period during which the state has invested in itself is the only period during which it has attracted more people than it has exported. It is possible that the favorable balance of trade in population will go far towards canceling the public debt, which it seems fashionable to criticize but which I think we should consider an investment in well-being. It is certain that had not North Carolina invested in herself, hundreds of thousands would not have invested their lives in North Carolina.

An analysis of our wealth and income, as revealed by the above and other facts, shows that although in the aggregate North Carolina is a fairly wealthy state, yet when reduced to a per capita basis she ranks right around forty-first or forty-second in every particular. I believe it is fair to say that in both wealth and income the average North Carolinian is not particularly well off. It appears that there are seven states in which the average wealth and income are below the average of North Carolina.

It is not within the scope of this paper to discuss the tax burden on wealth and income. I might say, however, that my own studies have proven to me at least that, generally speaking, North Carolina is not excessively taxed. I am certain that the tax burden is not equitably distributed, but a study of official and reliable data shows conclusively that while we rank around forty-first in wealth and income, we also rank around forty-first in tax expenditures. For the United States the average of state and local taxes is 1.72 per cent of the estimated true wealth, while the ratio for North Carolina is 1.78 per cent. Our rank in per capita taxes is exactly our rank in per capita income and in per capita wealth. In other words, our tax burden, in terms of our wealth and income, is exactly the average for all the states. It is higher in some parts of the state, lower in others. If we have a major tax problem in the state, it lies in the inequitable distribution of the tax burden and not in the amount of taxes paid.

PRESENT SOURCES OF STATE REVENUE: RATES COMPARED

A. S. Keister, *University of North Carolina Woman's College*

The problem of finding adequate revenues to support our state government with its enlarged program has proved a vexatious one. We here examine the suggestion that we use existing sources of revenue more fully. Is additional revenue to be found by raising the rates of the taxes now in use?

As is commonly known, the counties and cities rely almost exclusively on the general property tax for their revenue. It is this tax to which there is the most determined opposition. It is almost certain that the general property tax will have to be still further reduced. If so, it will further complicate the problem of adequate financing of the public schools, because it will mean additional taxes of other kinds merely to replace what is taken away from the general property tax. If all new sources of revenue are promptly used to reduce the property tax, we are making no headway on the task of increasing the financial support of the schools.

At present the six chief sources of state revenue, not including the general property tax being used temporarily by the state, together with the relative importance of each are as follows:

15¢ levy on property.

Selected commodities tax. 1933.

For the General Fund

		Percentage
Inheritance taxes	About	5
License taxes	About	18
Franchise taxes	About	40
Income taxes	About	37
Total		100

For the Highway Fund

Automobile license	About	27
Gasoline tax	About	73
Total		100

As the above tables suggest, the state revenues are classified into two funds: the general fund for the operation of all state activities except highways, and the highway fund for the support of the highway system of the state.

The Inheritance Tax

Now what are the possibilities of increasing the yield of some or all of the above taxes? First, the inheritance tax, a rather unimportant source of state revenue. On account of the ease with which a wealthy person may move his residence from one state to another, it is a doubtful policy for any state to make its inheritance tax rates very high. North Carolina has one of the highest, if not the highest, schedule of inheritance tax rates of any state in the Union. Our tax on direct heirs varies from 1 per cent on the first $25,000 of inheritance to 10 per cent on amounts over $2,500,000. From an examination of the rates levied on direct heirs in 1930 in the other forty-seven states, it appears that in only five—Georgia, Illinois, Kentucky, New Jersey, and Oklahoma—were the rates higher than in this state; and in but six other states do the rates rise as high as in North Carolina. The majority of states tax up to 4 or 5 per cent as a maximum on direct heirs. The exemption allowed to widows in this state is $10,000, and to each child under twenty-one years of age, $5,000. This represents about the average throughout the country. Our rates on collateral heirs

rise from a minimum of 3 per cent on the first $5,000 to 23 per cent on amounts over $3,000,000, without any exemption. In 1930 there was no other state in the Union with a schedule as high as this. This state takes full advantage of the offer of the federal government to credit a state's inheritance tax up to 80 per cent of the latter toward the federal estate tax levy. The conclusion seems inevitable that no more revenue can be hoped for by increasing the rates of our inheritance tax.

License Taxes

Second, state license taxes. Article two of our revenue act levies license taxes on a long list of businesses and professions operating in the state. Beginning with amusement parks and running down the alphabetical list through attorneys, auction sales, coal dealers, and collecting agencies to tobacco dealers and U-Drive-It passenger cars, the state has pretty thoroughly combed the possibilities of revenue from this source. Under this section of the law, chain stores are taxed $50.00 for each store over the first one operated. Merchants are taxed on what amounts to a gross sales tax, the rate on wholesale merchants varying from about one-fortieth of 1 per cent to one-twentieth of 1 per cent, and the rate on retail merchants being about one-tenth of 1 per cent of their gross sales. License taxes on various businesses and professions are commonly found only in the southern states, and North Carolina is using this tax quite as vigorously as any state in the South. There seems to be little promise of additional revenue in this schedule.

Franchise Taxes

Third, the franchise tax. The bulk of this tax is collected from the railroads, power companies, telephone and telegraph companies, insurance companies, motor busses and trucks, and from ordinary corporations, both domestic and foreign. Our annual franchise tax on railroads, for example, is three-fourths of 1 per cent of the total valuation of railroad property within the state. This is in addition to the usual county and city property tax levied on the railroads. Power companies pay a franchise tax of five per cent of their gross earnings in the state. Ordinary corporations pay at the rate of $1.25 on each thousand dollars of capital stock, surplus, and undivided profits as an annual franchise tax for the privilege of carrying on business within the state. It is almost impossible to compare our franchise tax with that of other states. Some of them levy no tax called a "franchise" tax, but have the substance thereof under other titles such as an "income" or a "privilege" tax, or merely a "corporation" tax. The committee would not say that this source of revenue is now being used to the limit. It is probable that some additional funds can be obtained from corporations doing business in the state. Certainly, if the general property tax is reduced, bringing relief to the corporations along with all other owners of property, the franchise tax might well be increased in order to get from corporations at least as much as they are paying at present. We do not advocate "bleeding" the corporations nor imposing unreasonable burdens on them. We are also mindful of the fact that the courts have held that franchise and privilege taxes must bear a reasonable relation to the value of the privilege conferred by the state on a corporation. We only insist that amidst forthcoming reductions in property taxes, the corporations pay at least as much total taxes as they are now paying and, if at all feasible, that they pay more.

Income Tax

Fourth, the income tax. The legislature of 1931 raised the income tax rates on individuals to a maximum of 6 per cent and on corporations

to 5½. Our state constitution at present fixes a maximum limit of 6 per cent. Until our constitution is changed it will be impossible to raise the maximum rate on individuals, and probably inadvisable materially to raise the rates in the lower brackets. The leeway on corporations is only one-half of one per cent. We believe the income tax is the fairest tax now in use. We believe that education should derive a much larger support from income taxation than it now does. We can not forget, however, that interstate competition restricts the practicable use of this tax by any one state. Under present conditions, with less than half the states using the state income tax, rates must be moderate for fear of driving citizens of substantial means from a taxing state to one without an income tax. Quite high rates may get less rather than more revenue. It is gratifying to note that the income tax is spreading rapidly among the states. When it becomes practically universal, we shall be in a much better position to raise our rates. In the meantime, if the federal government would credit toward the federal income tax the amounts paid in state income taxes by all citizens, it would encourage the states to adopt and use the income tax more vigorously, and would prevent the migration of citizens from one state to another to avoid the payment of state income taxes. The committee feels, therefore, that while the income tax must be looked to in the long run to provide a much larger support for education and all other state functions than it is now providing, the time is hardly ripe within the next year or two to attempt to get greatly increased sums from this source. So far as the committee has been able to learn, there are only three states which impose higher personal income tax rates than North Carolina, namely, Georgia, Oregon, and Wisconsin. Further increase in our income tax must wait upon a change in our state constitution, upon the progress of income taxation in the other states of the Union, and possibly on the federal government allowing credit on its income tax for income taxes paid to the states.

Highway Fund

So far as the highway fund is concerned, the state has two lucrative sources of revenue in the automobile license and the gasoline taxes. These two taxes yield for the highway fund more revenue annually than the four taxes above discussed yield for the general fund. The highway fund is permitting the state not only to carry the debt incurred for building the state highway system, including interest and amortization charges on the bonds, but also a liberal amount to maintain in good condition not only all of the state highways but, beginning this year, all of the county roads as well. In addition to these expenses, the fund is sufficient to provide several million dollars for new construction. It seems a strange thing that the general fund of the state charged with the most pressing functions of government should persistently run behind, piling up a deficit, while the highway fund provides the state with a road system second to none in America and with continual surpluses of revenue in it. Naturally the question is raised: could not some of the money flowing to the highway fund be diverted to the general fund? Such a suggestion will immediately arouse the opposition of those who think money collected from automobile owners should be spent only on the roads. But is this necessarily true? If a state is hard pressed for revenue to support the elementary functions of government while it has almost embarrassing riches in its motor vehicle and gasoline taxes, is there any important principle of fair taxation violated if the motorist is taxed to help to support the general functions of the state? Automobile ownership usually represents considerable taxpaying ability. If so, where is the injustice in taking a part of his taxes for the support of the state? We do not advocate endangering the payment of our state highway bonds nor the adequate maintenance of the roads.

Since we have the highways here, we must pay for and maintain them. These costs should be first charges on the highway fund. But when these charges have been met, the question may fairly be raised whether education and other welfare activities of the state should not come ahead of new construction of highways. Are we not adequately equipped with roads at present? Would not the several million dollars now spent on new construction annually bring the state greater returns if invested in the school system of North Carolina? We realize that one reason why the state invests money annually in new construction is to capture the federal aid money offered to the states. We believe that earnest efforts should be made to persuade the federal government to give its aid to the various states on more generous terms, thereby permitting the states to use money now drawn into new construction for more pressing needs. Even if the federal government will not release money to the states on more generous terms, we believe the state would be justified, during the next few years at least, in using the balance of its highway funds for education rather than for additional highway construction. If North Carolina should follow this policy, she would not be the first state in the Union to do so. Certain other states have recently come to the conclusion that a small portion of highway funds may properly be diverted in these trying times to the support of education and other social services of the state. We commend to our legislators an earnest consideration of the proposal here made.

PROPERTY TAXATION IN NORTH CAROLINA

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Farm Property Taxes

For the first time in the history of the state we have reliable facts about taxes paid by farmers on farm property. The 1930 census reports the values placed on farm lands and buildings by farmers themselves. It also reports the amount of property taxes that full farm owners paid on the land and buildings operated by these full owners. The information covers the farm property operated by all full owners, including the land operated by landlords, and by all full owners who owned only the land they actually farmed. The data cover about ninety per cent of all full owners and therefore give an accurate picture of property taxes paid by farmers.

Elsewhere appears a table which ranks the counties according to the average tax rate on farm real estate operated by all full owners, including land farmed by landlords. Parallel columns show the farm real estate tax per acre paid by all full farm owners; the average tax rate paid by all full owners who own only the land they operate; and the actual county-wide tax rate decrease on all property for 1931 under 1930 as the result of laws enacted by the 1931 legislature. The tax rates shown cover taxes actually paid in 1929, so that the rates are lower in 1931 by approximately the amount indicated as a result of the state's taking over county roads and the six-months' school, except for a fifteen-cent state-wide levy on property.

How Counties Rank

Alleghany and Forsyth are tied for first place, with farm property tax rates averaging sixty-five cents on the hundred dollars of true values in 1929. Since 1929 it appears that all property has been relieved twenty-seven cents in Alleghany against ten cents in Forsyth.

It appears that the farmers of Hyde county paid the highest tax rates on true values of any farmers in the state in 1929. The rate was $2.46 on all full owners, including landlords, and $2.09 on the full owners who owned only the land they farmed. Alleghany and Hyde represent the low and the high in North Carolina, on the basis of value placed on their farms by the farmers themselves and the taxes actually paid by farmers. The extremes are far apart. In other words, the tax burden of farmers lacks a great deal of being uniform. The actual rates appear to be reasonably low in many counties and very high in others. The 1931 picture must include the relief afforded by the county-wide reductions shown in the last column of the accompanying table. It must be remembered that the data are averages based on true values. Some farmers may pay more, others less. The census values as a rule are slightly above the values on the tax books, so that the assessment rates will be slightly higher. But it is the rate on true values that counts.

A word about property tax relief. The amounts of actual relief afforded by the 1931 legislative acts vary widely, from zero in Brunswick to eighty cents on the hundred in Currituck. The state average is thirty-three cents. or somewhat lower than was anticipated.

East High, West Low

It is interesting and significant to note the geographic location of counties with low rates and high rates. The first twenty-five counties with lowest average rates are all in the western part of the state, except New

Hanover, which is a city county and has few farms. Of the first fifty-four counties with lowest farm property tax rates, only seven can be classed as eastern counties.

On the other hand, consider the forty-six remaining counties, the ones with the highest average farm property taxes. Thirty-six of these are strictly eastern counties. It is very obvious that farm property tax rates in eastern North Carolina are much higher than in western North Carolina. The few western counties with high rates are mainly in the mountains. The only eastern county with a low rate is the city county of New Hanover. It is well known that the demand for property tax relief has come mainly from eastern Carolina, and it is obvious that rates in eastern Carolina are much higher than in western Carolina.

How Does North Carolina Rank?

We have heard a great deal of late about the burden of taxation on property generally in North Carolina. Aside from how much taxes general property should pay, how do farm taxes in North Carolina compare with those in other states? The rate for North Carolina in 1929 was 1.23 per cent of true value of farm property, while the average for all the states was 1.26 per cent. If the thirty-three cent reduction for 1931 be taken into account and the rates compared, it appears that North Carolina's farm property tax rate today averages almost the lowest in the United States. No other state has secured the reduction secured in North Carolina. These are the facts as shown by the census reports. However, it is true that farm property tax rates are still high in many counties, but very low in other counties, as compared with rates on farm property in other states. In Michigan and Indiana, for instance, there is not a single county with farm tax rates as low as the average for North Carolina.

Taxes Paid by Farmers

A question often asked is: how much taxes do farmers actually pay? The reports of the State Tax Commission show that the tax paid on all property in North Carolina in 1929 was around sixty-three million dollars; in 1930 around sixty million dollars; and in 1931 the amount was $47,684,000. The Secretary of the Tax Commission estimates that of that amount farmers paid around ten million dollars in 1929, or about one-sixth of the total. The 1930 census shows that taxes paid on 71,194 farms operated by full owners owning no other farm land amounted to $2,800,000. They paid on one-fourth of all farm property in the state. Calculating from these data, it appears that the total tax payment on all farm property in 1929 was around eleven million dollars, which is close to Dr. Fred Morrison's estimate.

It is obvious, therefore, that farmers pay between one-fifth and one-sixth of all property taxes paid in the state. If property tax rates are further reduced, the benefits will not accrue to farmers alone, as is often implied or assumed. Five-sixths of the benefits will go to other than farm property. Here is an arresting fact that is well worth thinking about. Tax rates on non-farm property average much higher than on farm property.

Further light is thrown on the burden of taxation that falls on property in North Carolina compared with other states in a report from the National Industrial Conference Board, just off the press. This report shows that in North Carolina in 1928 sixty-five per cent of all state and local revenues was derived from taxes on property. The average for the United States was seventy-eight per cent. There were only four states in 1928 that got less of their total state and local revenues from property. In the light of the

property tax relief granted since 1928, it is practically certain that in no other state does real property pay a smaller part of the total cost of government than in North Carolina, where the ratio is now around 50 per cent.

Conclusions

There are several interesting and important conclusions to be drawn from the facts reported in this study, and from other known facts.

1. The per acre tax on farm property in North Carolina is 60 cents, against the national average of 86 cents.
2. The true tax rate on farms operated by full owners owning no other farm land in North Carolina in 1929 was $1.23 on the hundred dollars. The national average was $1.26. The reduction in North Carolina has been 33 cents on assessed value.
3. The true tax rate on all full owners, including farms operated by landlords in North Carolina, was $1.36 in 1929. The national average was $1.27. Again our reduction has been 33 cents on assessed value, with no like reductions in other states.
4. The farm tax rates in western North Carolina are not much more than half the rates in eastern North Carolina, upon an average.
5. Tax rates on farm property in counties with high ratios of tenancy are much higher than in counties with high ratios of farm owners.
6. Tax rates on farm property in landlord-tenant communities in a particular county are higher than the rates in the same county where the farms are operated by owners having no tenants. It appears that in almost every case full owners with additional land which they lease to tenants pay higher rates than full owners with no other land. In counties with few tenants the rates vary little.
7. The ratio of all taxes paid by property in North Carolina today is lower than in any other state, Delaware possibly excepted. Governor Gardner makes this same claim in an article in the *Saturday Evening Post.* This statement is also vouched for by the Secretary of the North Carolina Tax Commission. The actual reduction afforded property as a result of the 1931 road and school acts is around twelve million dollars, according to a press release of October 9, 1932.
8. In 1921 general property paid 85 per cent of all state and local taxes in North Carolina. This year general property will pay about 50 per cent, mainly as a result of the school and road legislation of 1931. Property in North Carolina has been afforded more relief than in any other state in the Union. In no other state are all roads maintained with no property tax whatsoever. In no other state is a six-months' school term maintained with a tax rate as low as fifteen cents. The total levy on property for the six-months' school term is less than four and a half million dollars. The cost is around sixteen million dollars.
9. Almost exactly one-half the total levy on property in North Carolina today is for local debt service charges, or assessments to pay for investments in well-being. The levy on property for *current* governmental expenses is beyond all question the lowest in the United States.
10. North Carolina is a rural and small-town state. Property, therefore, is the most pervasive form of wealth. Yet property pays a smaller per cent of the total cost of government than in any other state.
11. Our state government is supported entirely without a property tax. (It contributes more than three dollars out of the general fund for the six-months' school term for every dollar raised by the fifteen-cent school tax). Our state tax rates on income, franchises, business, and licenses are in each case among the highest in the United States. Our state government is supported by a smaller per cent of the total population than in any other state.

12. As a general proposition, the only property tax problem in North Carolina is the lack of income from property out of which to pay property taxes. For instance, the decline in the value of farm crops in North Carolina during the last four years has been sixteen times greater than the amount of all annual taxes paid by farmers. Under ordinary conditions farmers could readily pay the present assessments on property. The present average property tax rate is low compared with the rates in other states. Rates on every other source of revenue are high compared with all the other states. This does not mean that there are not many counties, towns, and districts in North Carolina where property tax rates are very high and where relief is sadly needed. This is especially true in eastern Carolina.

The above are the facts, the irrefutable facts, about farm real estate taxes, property taxes in general, and rates on other forms of wealth and income in North Carolina. They are taken from the public record and are available to everyone who cares to look them up. We present them, without prejudice or bias, for what they are worth.

Property Taxes Paid by Farmers, 1929

The following table, based (1) on the 1930 Census of Agriculture, and (2) on the reports of the N. C. Tax Commission, shows for the first time the facts about taxes paid by farmers. The counties are ranked according to the average tax rate on all farm lands operated by full farm owners, including land operated by landlords. The rates are calculated from values placed on farm lands and buildings by the farmers themselves and taxes on lands and buildings reported paid by farmers, and are not rates on assessed valuation.

Rank	County	Average tax per acre 1929	Total tax rate full owners only, 1929	Tax rate full owners incl. landlords, 1929	County-wide tax rate decreases for 1931 under 1930
1	Alleghany	$0.30	$0.65	$0.65	$0.27
2	Forsyth	0.68	0.64	0.66	0.10
3	Watauga	0.39	0.75	0.76	0.15
4	Mecklenburg	0.79	0.76	0.82	0.27
5	Guilford	0.59	0.81	0.84	0.15
6	Randolph	0.25	0.81	0.85	0.07
7	Alexander	0.31	0.90	0.91	0.15
8	New Hanover	1.24	0.90	0.94	0.26
8	Gaston	0.74	0.87	0.94	*
8	Graham	0.25	0.88	0.94	0.47
8	Yadkin	0.39	0.90	0.94	*
12	Cabarrus	0.46	0.88	0.95	0.37
12	Davidson	0.44	0.94	0.95	0.70
14	McDowell	0.32	0.96	0.99	0.40
15	Haywood	0.63	0.98	1.01	0.22
16	Rowan	0.61	1.02	1.02	0.28
17	Burke	0.41	0.92	1.03	0.24
18	Surry	0.49	1.02	1.09	*
19	Caldwell	0.38	1.07	1.11	0.22
20	Wilkes	0.33	1.08	1.12	0.54
21	Lincoln	0.60	1.05	1.14	0.30
22	Buncombe	1.03	1.16	1.18	0.17
23	Durham	0.59	1.20	1.21	0.25
24	Stanly	0.49	1.20	1.24	0.35
25	Ashe	0.57	1.18	1.25	0.05
25	Moore	0.34	1.21	1.25	0.32
25	Bertie	0.51	1.19	1.25	*
25	Chatham	0.27	1.23	1.25	0.22
29	Catawba	0.66	1.21	1.27	0.28
30	Currituck	0.55	1.20	1.30	0.80
30	Richmond	0.43	1.29	1.30	0.39
30	Henderson	0.83	1.29	1.30	0.50
33	Lee	0.46	1.21	1.32	0.30
34	Caswell	0.47	1.21	1.35	0.40

Rank	County	Average tax per acre 1929	Total tax rate full owners only, 1929	Tax rate full owners incl. landlords, 1929	County-wide tax rate decreases for 1931 under 1930
34	Orange	0.35	1.33	1.35	0.42
34	Swain	0.47	1.36	1.35	0.04
37	Jackson	0.48	1.30	1.36	0.32
37	Wake	0.73	1.23	1.36	*
39	Northhampton	0.69	1.33	1.37	0.40
39	Robeson	0.77	1.08	1.37	0.47
41	Montgomery	0.35	1.34	1.38	0.35
42	Avery	0.66	1.47	1.39	0.27
43	Chowan	0.82	1.20	1.40	0.03
44	Gates	0.50	1.27	1.41	*
45	Cleveland	1.09	1.18	1.42	0.23
46	Madison	0.48	1.42	1.43	0.50
47	Hoke	0.72	1.29	1.44	0.24
47	Iredell	0.65	1.32	1.44	0.27
47	Pender	0.36	1.39	1.44	0.39
50	Davie	0.59	1.38	1.46	0.40
50	Warren	0.50	1.42	1.46	0.39
52	Granville	0.54	1.20	1.47	0.44
52	Rockingham	0.61	1.46	1.47	0.34
52	Yancey	0.55	1.42	1.47	0.18
55	Edgecombe	0.97	1.40	1.48	0.15
55	Pasquotank	1.04	1.34	1.48	*
57	Halifax	0.67	1.27	1.49	0.50
58	Alamance	0.50	1.43	1.50	0.30
59	Rutherford	0.69	1.30	1.51	0.62
59	Vance	0.81	1.16	1.51	0.61
61	Person	0.53	1.31	1.52	0.40
62	Mitchell	0.69	1.49	1.55	0.43
62	Harnett	0.80	1.45	1.55	*
64	Macon	0.55	1.55	1.56	0.19
64	Wilson	1.35	1.31	1.56	0.46
66	Columbus	0.54	1.56	1.57	0.53
67	Nash	1.07	1.39	1.58	0.40
68	Wayne	1.03	1.38	1.61	0.39
69	Beaufort	0.77	1.48	1.62	0.27
69	Perquimans	0.74	1.55	1.62	0.36
71	Sampson	0.60	1.40	1.63	0.24
71	Union	0.71	1.49	1.63	0.53
71	Stokes	0.68	1.41	1.63	0.41
74	Tyrrell	0.56	1.55	1.66	0.71
75	Bladen	0.38	1.70	1.71	0.05
75	Camden	0.95	1.59	1.71	0.56
75	Cumberland	0.66	1.42	1.71	0.40
78	Onslow	0.43	1.47	1.74	0.39
79	Lenoir	1.08	1.53	1.75	0.30
80	Anson	0.46	1.68	1.76	0.30
80	Transylvania	0.78	1.73	1.76	*
82	Franklin	0.75	1.63	1.79	0.21
83	Hertford	0.85	1.42	1.81	0.63
84	Pitt	1.20	1.60	1.83	0.41
85	Polk	0.70	1.80	1.88	0.28
86	Greene	1.18	1.64	1.91	0.45
87	Clay	0.55	1.71	1.93	0.02
87	Johnston	1.12	1.65	1.93	0.45
87	Jones	0.56	1.70	1.93	0.20
87	Scotland	1.23	1.63	1.93	0.58
91	Martin	0.81	1.80	1.95	0.05
92	Craven	0.75	1.90	1.96	0.30
93	Washington	0.83	2.03	2.03	0.21
94	Dare	0.84	1.67	2.04	0.10
95	Brunswick	0.39	2.10	2.10	0.00
96	Pamlico	0.85	2.02	2.11	0.25
97	Duplin	0.82	2.04	2.22	0.25
98	Cherokee	0.46	1.95	2.40	0.32
99	Carteret	1.19	2.37	2.43	0.46
100	Hyde	0.90	2.09	2.46	0.39
	State average	0.60	1.23	1.36	0.33

* Data not available.

PROPERTY TAXES AND PROPERTY TAX RELIEF IN NORTH CAROLINA

FRED MORRISON, *Secretary, North Carolina Tax Commission*

There is more widespread and more generally accepted misinformation in North Carolina about the present tax burden on property than about any other important public question I know.

It has been repeated so frequently by so many people that the property tax burden in this state is so excessively high as to be confiscatory that most of us have come to believe the accuracy of this statement. I do not know what will happen to one who challenges it, but the truth is that compared with the property tax burden in other states our tax levies on property are not only not confiscatory, they were not even excessive. In North Carolina property pays the lowest percentage of the total cost of government that it pays in any other state in the nation with the possible exception of Delaware.

The total state and local tax bill paid from all sources in 1931 was about 96 million dollars. Property paid less than 48 millions of this total. In other words, in North Carolina property pays about 50 per cent of our total tax bill. Land and real estate constitute about 70 per cent of all taxable property. The real estate tax in North Carolina is, therefore, about 34 million dollars. In percentage, real property pays about 36 per cent of our total tax bill.

In many states property pays between 70 and 85 per cent of the total taxes collected. Due to recent decreased earnings from land and real estate, we have felt the pinch of taxes on property so keenly and have been so much concerned about our local problem that not many people have realized fully that most other states are in a relatively far worse condition.

Our thinking is suffering from an equally serious inaccuracy with respect to the taxes paid by farm property. In 1929-30 when the property tax bill of the state was at its peak, reaching 63 million dollars, property listed within the boundaries of incorporated cities and towns paid nearly 40 millions of the 63 million total. Manufacturing property outside of towns and suburban property paid another 5 million, so that agricultural and timber property and railroads and power companies paid only 19 million dollars in taxes on rural property.

Analyzed further, it appears that agriculture and timber property and property owners paid about fifteen and three-quarters million dollars in taxes in that year. In other words, strictly rural property and property owners paid in that year about one-sixth of the total state tax bill. In planning further relief for agriculture, it is well to remember that five-sixths of all relief given goes to somebody else.

The general assembly of 1931 reduced taxes on property as a whole in the amount of 12 million dollars per year, or 20 per cent. When the picture is brought down to date, it is seen that property taxes paid by agriculture and timber lands and rural taxpayers in 1931 was less than 13 million dollars, or 13 per cent of all taxes paid in North Carolina.

In other words, North Carolina has over a period of years consistently and substantially reduced the tax burden on property, rural and urban, agricultural and industrial. The general assembly of 1931 gave North Carolina property owners the largest tax reduction in the history of this state, and so far as I am able to ascertain, the largest given at any one time by any state.

Our system of property taxation is faulty, of course. The general assembly is still handicapped by the rule of uniformity in the constitution, which prevents it from reaching in a general and fair way any class of intangible personal property, i.e., securities such as bonds, stocks, notes, and other like investments. The uniformity clause assumes the taxation of this class of property at the same rate as real estate, but the law contains a debt offset by which owners of securities can legally evade payment of any tax on this class of property by incurring a short time debt to offset the taxable amount of such property. In other words, this state has repeatedly refused to classify intangible property for taxation, sticking to the uniform rule always. As a matter of fact, however, it permits the taxpayer himself to set up his own classification which can be legally manipulated to relieve him of paying any tax on his securities. Clear thinking would probably substitute state classification for individual classification.

Another property tax problem about which we do a great deal of confused and, in my opinion, unsound thinking is with respect to the question of reassessment. Almost every candidate for important office in this state is running on a platform pledging a reassessment of property in 1933. The Press notices indicate that by "reassessment" they mean "lower" assessment. A comprehensive, businesslike reassessment of property ought to be made, but it would be a fundamental mistake for the average citizen to believe that a more or less horizontal reduction in the assessed value of property in North Carolina would decrease his tax bill by one dollar. The only way to reduce property taxes as a whole is to reduce budgets and services paid out of property taxes. So long as the counties, districts, cities, and state levy $48,000,000 on property the taxpayer will get no relief no matter if the assessed value of the state should be decreased from 3 billions to 2 billions by a reassessment. The only result of such a procedure would be to reduce values and increase rates. Effective tax relief consists in reducing the budgets to be paid out of property taxes. An effective reassessment would consist in equalizing values, whether they are stabilized at 3 billions or less.

The following table shows property tax reductions by counties as a result of 1931 legislative acts:

County	Property tax 1930.	Property tax 1931.	Pct. Dec.
Alamance	$ 829,143	$ 695,090	16.2
Alexander	137,170	106,795	22.1
Alleghany	56,672	42,012	23.9
Anson	385,516	277,533	28.0
Ashe	189,020	163,617	13.4
Avery	113,436	96,235	15.2
Beaufort	575,790	424,531	26.3
Bertie	291,814	237,793	21.9
Bladen	241,211	223,583	07.3
Brunswick	217,229	208,725	03.9
Buncombe	4,110,266	3,360,209	18.2
Burke	450,762	370,052	17.9
Cabarrus	682,019	490,863	28.0
Caldwell	404,338	329,480	18.5
Camden	74,519	54,095	27.4
Carteret	451,226	364,503	10.2
Caswell	145,471	113,068	22.3
Catawba	857,247	730,794	14.8
Chatham	304,845	240,918	21.0
Cherokee	208,214	162,924	21.8
Chowan	177,785	141,648	20.3
Clay	62,653	62,329	00.5
Cleveland	681,534	499,695	26.7
Columbus	456,422	285,346	37.5
Craven	728,320	571,474	21.5
Cumberland	649,346	504,750	22.3
Currituck	73,380	34,184	53.4
Dare	69,416	69,245	00.2
Davidson	928,614	640,161	30.1

County	Property tax 1930.	Property tax 1931	Pct. Dec.
Davie	196,861	135,079	26.3
Duplin	469,477	386,877	17.6
Durham	2,382,668	1,989,441	16.5
Edgecombe	664,233	475,062	28.5
Forsyth	3,307,163	2,904,539	12.2
Franklin	360,425	317,887	11.8
Gaston	1,655,032	1,206,245	27.1
Gates	106,661	69,697	34.6
Graham	114,147	85,604	25.0
Granville	394,130	285,575	27.5
Greene	244,217	177,778	27.2
Guilford	3,900,710	3,578,862	08.3
Halifax	809,288	574,249	29.0
Harnett	586,303	433,389	26.0
Haywood	561,854	489,269	12.9
Henderson	665,558	524,210	21.2
Hertford	252,949	169,500	33.0
Hoke	136,203	103,240	24.2
Hyde	121,643	96,891	20.3
Iredell	932,193	781,818	16.1
Jackson	235,889	195,309	17.2
Johnston	1,037,922	724,259	30.2
Jones	121,060	101,779	15.9
Lee	291,186	225,563	22.5
Lenoir	494,453	415,135	16.0
Lincoln	277,440	219,583	20.9
Madison	274,010	203,511	25.7
Macon	149,811	127,889	14.6
Martin	346,207	279,269	19.3
McDowell	434,733	335,827	22.8
Mecklenburg	3,624,315	2,775,590	23.4
Mitchell	193,907	146,400	24.5
Montgomery	391,942	308,810	21.2
Moore	517,749	425,212	17.9
Nash	891,664	629,137	29.4
New Hanover	1,327,316	1,091,401	17.8
Northhampton	280,216	181,079	35.3
Onslow	202,842	151,544	25.3
Orange	306,253	248,755	18.8
Pamlico	113,483	92,301	18.7
Pasquotank	436,380	321,551	26.3
Pender	172,536	133,522	22.6
Perquimans	159,916	124,136	22.4
Person	259,170	210,041	19.0
Pitt	597,810	680,573	24.2
Polk	838,995	192,959	19.3
Randolph	399,528	338,433	15.3
Richmond	607,164	418,458	31.1
Robeson	765,299	591,623	22.7
Rockingham	938,033	747,046	20.4
Rowan	1,210,045	951,951	21.3
Rutherford	887,877	667,702	24.8
Sampson	438,316	318,122	27.4
Scotland	327,875	231,547	29.4
Stanly	559,787	429,009	23.4
Stokes	244,289	189,662	22.4
Surry	544 674	431,974	20.7
Swain	236,736	207,716	12.3
Transylvania	226,494	191,030	15.7
Tyrrell	79,737	49,100	38.4
Union	585,537	412,968	29.5
Vance	457,103	292,797	35.9
Wake	2,276,466	1,950,936	14.3
Warren	232,671	148,848	36.0
Washington	188,623	156,930	16.8
Watauga	147,312	137,960	06.3
Wayne	987,333	851,871	13.7
Wilkes	351,833	298,229	15.2
Wilson	858,568	626,951	27.0
Yadkin	109,865	88,810	19.2
Yancey	157,876	125,422	20.6
State	59,911,339	47,683,594	20.4

The total property tax levy in North Carolina for the fiscal year 1931-32 showed a decrease of $12,228,000— or 20.4 per cent—compared with the levy of the preceding year. This is the largest tax reduction on land and property ever achieved in a single year in the entire history of the state.

Figures just completed by the Tax Commission show a total property tax levy of $59,911,000 in 1930, and a drop to $47,684,000 in 1931—the first year to have the benefit of the 1931 school and road legislation, and of the legislative and administrative economies put into effect in local government.

The analysis of the Tax Commission shows a reduction in county levies of $10,055,000, in district levies of $1,704,000 and in municipal levies of $469,000.

Governor's Statement

"The $12,250,000 reduction in the property tax for the entire state means that the citizens, business and industries of North Carolina were called upon to pay only four-fifths as much property taxes in 1931 as in 1930," declared Governor O. Max Gardner in commenting on the figures. "In other words, the economies put into practice in the administration of local government in North Carolina last year left $12,250,000 normally taken in property taxes in the pockets of the taxpayers for personal use and for productive purposes. This is the biggest tax reduction on land and property ever provided to the citizenship of North Carolina. It is also probably the biggest reduction ever brought about in a single year in any state.

"Equally significant as this reduction of $12,250,000 in property taxes is the fact that the cost of operation of the departments and institutions of the state has been reduced from $8,658,000 in 1929 to $6,167,000 in 1932, a reduction of 29 per cent."

TAXATION OF FOREIGN CORPORATIONS

D. G. Brummitt, *Attorney General of North Carolina*

I assume it is desired that I present facts and the law with respect to this subject. I shall therefore so limit myself, with little, if any, argument or opinion.

By foreign corporation is usually meant the ordinary business corporation. But the discussion must of necessity deal somewhat, by way of illustration at least, with public utilities and public service corporations.

A corporation is not a citizen of any state other than that of its creation within the meaning of the word "citizen" as used in Article IV, section 2, of the Federal Constitution, and section 1 of the Fourteenth Amendment. Thus a corporation is not entitled, in a state other than that of its creation, to the privileges and immunities of citizens in the several states as protected by those provisions.

The general rule, therefore, is that a corporation may not exercise its special privileges in other states without their consent. Accordingly, a state may admit foreign corporations to do intra-state business within its limits upon such reasonable terms as it may fix, but when a foreign corporation is admitted to another state, it then obtains the protection of due process of law and the enjoyment of its property under the equal protection of the laws as accorded by the Fourteenth Amendment.

These principles have no relation to conduct of interstate commerce by a foreign corporation. No state may lay any burden upon interstate commerce, nor tax or prohibit conduct of such business if carried on between the state of the corporation's creation and the other state.

A foreign corporation admitted to do business in North Carolina is subject to its laws within constitutional limitations. Its tangible property is taxable, just as is that of all persons and other corporations within the state. Difficulties arise with respect to the taxation of such corporations when they are engaged in both interstate commerce and also do an intrastate business. That is particularly true with respect to taxing them upon their franchise as property, their income, and the levy of a franchise or combined franchise-privilege tax. Here we deal with the broadening field of taxation of intangibles.

In a developing state property shifts to intangibles. In this form it becomes harder to find. It acquires new and different characteristics. The indicia of ownership readily change location. It is not easy to determine under constitutional limitations the proper situs of taxation. When a particular taxing system is devised to reach it, it readily assumes another form.

A large body of this intangible value exists in the more successful corporations. Different terms are used to define and describe it, such as, "going concern value," or "franchise value," or "corporate excess." These terms describe the same thing, that is, the intangible value attached to, and found in, the corporation over and above the value of its tangible property.

This intangible value is property. It is taxable as such. It is assessed and taxed in most public service corporations. It also exists in the more profitable ordinary business corporations. Its value can be determined by capitalizing the earnings or by ascertaining the market value of the capital invested in the enterprise.

As stated, this intangible value is taxed as property in public utilities and public service corporations—railroads, telegraph, telephone, electric light, and power companies, etc. With respect to most of these, it is very necessary that this be done. If the state assessed and taxed an express company only upon such of its tangible property as could be found having

a taxable situs in North Carolina, the assessment against it would be very small indeed. The same is true with respect to a telegraph company. Any fair system of property taxation, then, requires the taxation of the intangible value existing in such corporations.

The method used in assessing the value of a railroad is illustrative here. It would be very difficult to rely entirely upon finding the value of a railroad's physical property, as is done with respect to other real estate. Resort is had to determining the market value of its stocks and bonds. That is the value which the public places upon the whole property. Another method used is that of capitalizing the earnings of the whole system. A combination of the methods is generally used. It then becomes an easy matter to allocate to the state and its several taxing subdivisions a proportionate mileage part of the total value of the corporate property.

With respect to all corporations, domestic and foreign, the state undoubtedly has the right to tax: (a) its tangible property; (b) its intangible value, or corporate excess employed in business in the state; and (c) the share of stock in the hands of the stockholder. Leading cases on this subject are Kidd *v.* Alabama, 188 U. S., 77, 47 L. ed., 699—opinion by Mr. Justice Holmes; and Hawley *v.* Malden, 232 U. S., 1, 52 L. ed., 437—opinion by present Chief Justice Hughes.

With respect to domestic business corporations, we tax in North Carolina: (a) its tangible property, and (b) its corporate excess. We do not tax (c) its stock in the hands of the stockholder. In Person *v.* Watts, 184 N. C., 499, our supreme court held that the general assembly could exempt stock in domestic corporations from taxation on the ground that all of the " nvestment," in the words of Article V, section 3, of the Constitution, has been taxed in taxation of the intangible value or corporate excess.

With respect to foreign business corporations, we tax only (a) its tangible property, and *do not* tax: (b) its corporate excess, or (c) its stock in the hands of the stockholder, except in the alternate manner hereinafter set out. Prior to 1923, we did tax the stock in the hands of the stockholder. In Person *v.* Doughton, 186 N. C., 723, the court did not pass on the constitutionality of this act of 1923 exempting stock in foreign corporations from taxation, but simply held that the question was not properly presented in the way it came before the court. Some states, notably Rhode Island and Massachusetts, do tax corporate excess or intangible value of foreign business corporations.

The general assembly of 1931, however, imposed a special income tax on the income from stock in foreign corporations held and owned by residents of this state, sections 311½ and 215.g of the Revenue Act of 1931. This special income tax is imposed in lieu of a property tax on such stock. This tax is imposed on such income without deduction or exemption as is permitted under the constitution with respect to tax on the general income of the taxpayer. The holder of such stock in foreign corporations has the right to elect as between paying this special tax on income without deduction or exemption, or listing the stock and paying property taxes on it in the taxing jurisdiction where he lives.

The state has since January 1, 1932 (April 26, 1932) collected $575,000 from this special tax on income from stock in foreign corporations.

Difficulties immediately arise in imposing income and franchise taxes on foreign corporations doing business in the state. With respect to railroads and other public service corporations, the income tax is imposed on net operating income, i.e., income from the property without relation to its ownership. This was sustained in our railroad tax cases, Atlantic Coast Line Railroad Co. *v.* Doughton, 261 U. S., 413, 67 L. ed., 1051. The result is that a railroad pays taxes upon its income ahead of, and without relation

to, payment of interest on its bonded indebtedness, which for this purpose is regarded as a part of the investment in the property.

With respect to the foreign corporation doing business here and in other states, it becomes necessary to determine what proportion of its net income arose from business in this state. The method of such allocation is as set out in section 311 of our revenue act of 1931. If the business of such foreign corporation is manufacturing or any form of collecting, assembling, or processing goods or materials, the ratio of net income apportioned to North Carolina is determined by taking the arithmetical average of two ratios: (a) the ratio of the fair cash value of its real estate and tangible personal property in the state to that fair cash value of its entire real estate and tangible personal property; and (b) the ratio of the total cost of manufacturing, collecting, assembling, or processing within the state to the total cost of such manufacturing, collecting, assembling, or processing within and without the state.

Slightly different methods are used with respect to corporations engaged in other types of business.

A state may not lay any tax which would be a direct burden on interstate commerce, even under the guise of taxing for the privilege of doing business in the state. For that reason, no tax can be levied on gross receipts from interstate business. But in levying an income tax or a franchise tax based on net income on a foreign corporation, not only may net income from intra-state business be considered, but a fairly apportioned part of net income from interstate business as well.

In laying franchise taxes, the states have therefore found it necessary to use such methods as would in effect reach the profits from interstate business without levying them directly on receipts from such interstate commerce. Necessarily, in levying a franchise tax the first point to be determined is what is to be the base for the measurement of such a tax. Our franchise tax on railroads is illustrative here. If such franchise tax were based on gross receipts of the railroad, the base for the measurement of such tax would have to be limited to such receipts from intra-state business, that is, from business which originated and ended in North Carolina. It could not include any receipts from interstate business. Manifestly, then, the state does not use gross receipts in the measurement of the franchise tax on railroads. It uses the assessed value of the railroad property. That value is determined, as hereinbefore stated, upon a consideration of the value of the physical property, the value of its stocks and bonds, and earnings capitalized. Into all of these items there enters the value of the property from both intra-state and interstate business. A franchise tax based upon a mileage proportion of the total value of the railroad property, although it is used both in intra-state and interstate business, is constitutional. A franchise tax based on gross receipts of the railroad, which included any such receipts from interstate business, would not be constitutional.

A striking illustration of the necessity of using different methods in levying a franchise tax is shown by the case of Railway Express Agency *v.* Maxwell, 199 N. C., 637. This franchise-privilege tax was laid by the act of 1929 upon express companies at the rate of $15.00 per mile of track over which the company operates within the state. The showing in that case was that the combined franchise-privilege tax alone was equivalent to 12 per cent of the company's gross receipts upon intra-state business. It was natural, then, for the general assembly to use a different method in levying the tax.

But a state has a right to consider other factors in determining its franchise tax. When such tax is properly apportioned to business done or property owned within the state, the tax is not invalid under the commerce

clause merely because a part of the property or capital included in computing the tax is used by the corporation in interstate commerce (International Shoe Co. *v.* Shartel, 279 U. S., 429, 75 L. ed., 781). A franchise tax on ordinary business corporations may thus take into consideration the nature of the business and the particular form in which it is carried on.

A state may use the total authorized capital stock of domestic corporations as the base for the measurement of a franchise tax against it, although a portion of that stock has not been actually issued. That seems to be settled by the case of Roberts *v.* Emerson, 271 U. S., 50, 70 L. ed., 776.

It may not do the same, however, with respect to a foreign corporation. A franchise tax upon such foreign corporation must be related in some fair way to the property invested, the business done, or capital employed, in the state. Hence it becomes necessary to adopt some method of allocating a reasonable part of this business done or capital employed to the taxing state. By section 211 of the Revenue Act of 1931, the same rules are adopted for allocation of the franchise tax as for the income tax.

It is necessary, also, to adopt a base for the measurement of such franchise tax for both domestic and foreign corporations (sections 210. 211, Revenue Act). That base is issued and outstanding capital stock, surplus and undivided profits, but in no case less than the assessed value of the corporation's property in the state. With respect to the foreign corporation, there must of course be that allocation based upon business done or capital employed in the state.

It will be seen then that the franchise tax on corporations, both domestic and foreign, primarily relates to the amount of issued and outstanding capital stock. The rate is $1.25 per thousand dollars of such issued and outstanding capital stock for the domestic corporation, and the allocated portion of such issued and outstanding capital stock for the foreign corporation. The measurement of the tax has no relation to the value of the stock nor the income of the corporation. The stock of a corporation may be valueless or worth greatly less than its par, but its franchise tax is based on the amount issued. The actual value of the stock of another corporation may be greatly in excess of par value, and yet the same base—that of amount—is used.

New York and California base their franchise tax on ordinary business corporations on net income, which net income includes non-taxable income, such as that from federal bonds, bonds of the state itself, royalties from patents, etc. This method has been sustained by the Supreme Court of the United States in Educational Films Corporation *v.* Ward, 282 U. S., 379, 75 L. ed., 400, and Pacific Company *v.* Johnson, State Treasurer, decided April 11, 1932.

Certainly, it would be a measure of essential justice to smaller, weaker corporations to use the value of the stock or net income of the corporation as the basis for measurement of the franchise tax. This would not only be more equitable but also fairer to domestic corporations. Most of the highly successful corporations in this state operate under foreign charter. They do so because our taxing laws are more favorable to foreign corporations than to domestic ones, the main difference being that we assess and tax the intangible value or corporate excess against domestic corporations but not against foreign corporations. The use of the value of stock or net income for measurement of the franchise tax would in some degree compensate for this discrimination against domestic corporations with respect to the taxation of corporate excess as property.

The difference in our taxation of domestic and foreign corporations may be summarized as follows:

(a) The tangible property of both forms of corporations is listed, assessed, and taxed locally alike.

(b) Corporate excess is assessed against domestic corporations but not against foreign corporations.

(c) Both forms of corporations pay income tax in substantially the same way, such tax being necessarily assessed against foreign corporations by some method of allocating income produced within the state.

(d) Both forms of corporations pay franchise taxes, the basis being the amount of issued and outstanding capital stock, surplus and undivided profits, but in no case less than the assessed value of property in the state, the assessment of such tax against foreign corporations being necessarily allocated in proportion to capital employed in the state.

(e) Stock in domestic corporations exempt from property taxation; stock in foreign corporations exempt from taxation only if owner of the stock pays the special tax on income without deduction or exemption, in lieu of property tax on the stock.

It should be noted that the owner of stock in a foreign corporation does not report or pay tax on that proportion of the income from his stock arising from business of the corporation in the state, since the corporation itself pays income tax on such income.

INCOME AND INHERITANCE TAXES

A. D. McLean, *Washington, N. C.*

Since it has come to be accepted that schools and their support by the state are so closely related as to be almost inseparable, it may be interesting to recall that our first state constitution, that of Halifax in 1776, provided "that a school or schools shall be established by the legislature for the convenient instruction of youth, with such salaries to the masters, paid by the public, as may enable them to instruct at low prices; and all useful learning shall be duly encouraged and promoted in one or more universities."

Probably for the reason that the power was implied or held to be inherent in the legislature, then as now composed of a senate and house of commons or house of representatives, neither the Halifax constitution of 1776 nor that of 1835 contained any taxing provisions or limitations whatever, except in 1835 that "Capitation tax shall be equal throughout the State upon all individuals subject to the same." The constitution of 1868 not only devoted an entire article to the subject of education, directing that the general assembly "shall provide by taxation and otherwise for a general and uniform system of Public Schools, wherein tuition shall be free of charge to all the children of the State between the ages of six and twenty-one years," which provision although dormant for many years is now held to be mandatory, but it also devoted an entire article to the subject of revenue and taxation. The income tax provision of this is "The General Assembly may also tax trades, professions, franchises and incomes, provided that no income shall be taxed when the property from which the income is derived is taxed."

So far as I am aware, this income tax section was not invoked until 1899, when the legislature levied a graduated tax on gross income above $1,000,000, if derived from property not taxed or from salaries or fees or other sources. This section was amended in 1920, however, so as to permit taxation of income when derived from property already taxed, but at the same time there was added the limitation that "the rate of tax on incomes shall not in any case exceed six per cent," with fixed exemptions of $2,000.00 and $1,000.00 for married and single persons, respectively, and with the right to allow "other deductions (not including living expenses), so that only net incomes are taxed." It is manifest, of course, that this limitation works both ways, i.e., above and below, so that six per cent is the highest permissible rate no matter how large the income or how urgent the state's need, while the large majority of our people whose incomes come within the exemptions pay nothing. Hence it is said that any effort to remove these limitations and to make our income tax law more elastic will be opposed by a combination of the relatively few in the high brackets and the many who are now exempt, in sharp contrast to the recent proposal in Congress to increase the surtax rate up to 65 per cent in some cases, or that of the Turkish Republic to take one-half of incomes down to a few hundred dollars.

The point to be emphasized is not that the legislature should go either so high up or so low down in levying income taxes, but that the strait-jacket which now compresses it should be removed by at least eliminating the six per cent restriction, especially for the reason that the income tax is by common consent one of the fairest methods of raising revenue that has been devised. The fact that Congress exercises priority in this field makes it all the more important, in my opinion, that our constitutional provision should be unfettered so the legislature may have more dis-

cretion and liberty of action. This is not dangerous as a surrender by the people of any fundamental right, since it is subject to repeal or revision every two years.

Without going into statistical detail but assuming the figures furnished me to be correct, individual and corporate income taxes in North Carolina over the fiscal period from July 1, 1926, to July 1, 1931, have aggregated about $35,500,000 for the full five years, or an average of around $7,100,000 per year in the same period, ranging from a high of $8,000,000 in 1927-1928 to a low of $6,000,000 in 1930-1931. For the present fiscal year (up to April 1) the total from this source is $6,438,286, which is half a million above the previous year. From this figure two facts stand out—(1) that the total for individual incomes in this fiscal year up to April 1 is about twenty-five per cent greater than in the previous year, with practically no difference in domestic corporate income in the same comparative period; and (2) that not only has foreign corporate income increased more than ten per cent over the previous year, but up to April 1 has amounted to nearly four million dollars, not quite two-thirds of the total but twice as much as either individual or domestic corporate income to that date. These two facts, separately considered, demonstrate what can be done by the legislature with a little more latitude or leeway than the constitution now allows in dealing with income taxes. Individual income taxes for the current year up to April 1 at the applied rates amounted to only about one-half of the total for the previous year, or about one-fourth of that for 1928-1929, which went up to the high mark of two and a half million; the balance for this year, bringing the total of individual income up to the level of the previous year, is due to the six per cent on dividends from stocks of foreign corporations, which is of a doubtful constitutionality but has produced a satisfactory result; and the increase from foreign corporations is due not only to increase in the rate, which is the same for domestic corporations, but to a better method or measure of determining their North Carolina income, and it applies principally to tobacco companies doing business in this state. What clearly emerges, therefore, is that if ad valorem or property taxes are to be avoided for school and other state purposes (which is inevitable), our too rigid income tax section must be made more elastic and so that the legislature may more easily deal with difficult conditions as they arise. I have not overlooked the argument frequently made that the limitation ought to be retained in the constitution to enable us to compete with other states or to prevent our rich citizens from moving away, but I think a sufficient answer to it is that intelligent self interest will always operate as a reasonable restraint on any disposition merely to soak the rich, and that necessity will continue to be the fruitful mother of tax invention as applied both to residents and non-residents.

Coming to inheritance taxes, it should at once be observed that no constitutional provisions or restrictions have ever existed from 1776 to the present, but the omission from the constitution of 1868 of any reference to inheritance taxes in the article on revenue and taxation led to the contention that such taxes were excluded. However, the Supreme Court as early as 1871, in the case of Pullen *v.* Commissioners of Wake, overruled this contention and held:

> It will be assumed as an axiom not needing discussion that the Legislature has an unlimited right to tax all persons domiciled within the State, and all property within the State, except so far as that right has not been limited either by express words of the State Constitution or by plain implications. The power to tax is an attribute of sovereignty so vital and so necessary to the existence of a State that it cannot be held to have been forbidden as to any particular subject, except where the policy obviously commends itself to our sense of justice, or is most clearly expressed. * * * The right to give or take property is not one of

> those natural and inalienable rights which are supposed to precede all government, and which no government can rightfully impair. There was a time, at least as to gift by will, it did not exist; and there may be a time again when it will seem wise and expedient to deny it. These are the uncontested powers of the Legislature upon which no article of the Constitution has laid its hands to impair them. If the Legislature may destroy this right, may it not regulate it? May it not impose conditions upon its exercise? And the condition it has imposed in this case is a tax. It is argued, however, that because the Constitution says that the General Assembly may also tax trades, professions, franchises and incomes, and as this right of succession cannot be technically classed under either of these heads, it must be implied that the Legislature was forbidden to tax such a right, on the rule of interpretation that the expression of one thing implies the exclusion of any other. We think the implication is too slight to restrict the legislative power in so vital a portion of it as that of taxation, and especially so when we can see no reason of policy or justice requiring such a restriction.

Since this decision the legislative right to impose inheritance or succession taxes has not been denied, but without constitutional limitation its exercise has been reasonably restrained by intelligent self interest, so that North Carolina is a good state to die in as well as to live in. Notwithstanding the fact that Congress has asserted its priority in this field and proposes to plow it more deeply than before, unless more consideration should be shown to the necessity of the states, our receipts from it in the same five-year period to which I have referred (July 1, 1926, to July 1, 1931) have been fairly constant, with an aggregate of $4,623,376 for the period, or a yearly average of about $925,000. There has been a sharp drop to $296,352 to April 1 of the current fiscal year, or less than one-third of the yearly average. However, this may be explained in part, according to my information, by the pendency of certain settlements yet to be made. It is apparent that the sum of income and inheritance taxes, amounting to over seven million dollars for the current year, even if available entirely for educational purposes, will not produce more than one-half of the appropriation necessary to carry on the six months' school, to say nothing of the University and other state institutions.

Is it not almost inevitable then—with the constitutional limit on incomes, with Congress about to assert its priority both as to incomes and inheritances, and with a steady falling off in both—that North Carolina is to be confronted with the necessity of curtailing its support of public schools and other state institutions to the point of crippling them? I for one do not think so, but my faith abides in the assurance—in the conviction—that if every man and woman in the state contributes something, be it much or little, our schools and other institutions will be maintained, economically to be sure, but up to the standard we have set, about which we have boasted, without which we go backward, with which we go forward and attain to that higher standard of citizenship for ourselves and of education for our children awaiting us as a people and as a state. But we must have the purpose and the strength to make such sacrifices and to impose such taxes as necessity may require. "Getting the money where the money is" is sound enough in principle, if the money is there to be gotten, but it may mean some form of sales tax, if Congress does not exclusively occupy that field also; it does mean that franchise, income, and inheritance taxes are inadequate and must be supplemented; and it should mean that the three million people of North Carolina are willing to distribute the burden among themselves so that, in the words of the constitution, "schools and the means of education shall forever be encouraged" and "beneficent provisions made for the poor and the unfortunate."

LUXURY OR COMMODITY TAXES

R. B. Tower and S. H. Hobbs, Jr.

Under the following heads Ralph Burnett Tower, in "Luxury Taxation and its Place in a System of Public Revenue," *Special Report of the N. Y. State Tax Commission,* has attempted to present those features of state luxury taxation which to him seem most significant.

1. Significant Features of State Luxury Taxation

1. No exact definition of *luxury* is possible except from the standpoint of society as a whole, since superfluity can only be measured in terms of what seems to be normal for the social group. The principal significance of the luxury concept, insofar as taxation is concerned, is that it may be possible by its use to differentiate roughly between goods and services that are more essential to human well-being and those that are less needed.
2. Consumption excises on luxury goods have been known in the United States almost from the beginnings of colonial history. The widespread enactment of luxury tax legislation among the states, however, dates back only to 1921. Evidence seems to point the way to future developments in this field, but growth is likely to be slow.
3. Although the theoretical incidence of luxury taxes may rest upon either the producer, distributor, or consumer of taxed goods and services, depending upon the cost conditions under which such commodities are produced and the elasticity of demand, actual experience among the American states shows that the burden of these taxes ordinarily falls upon the ultimate consumer.
4. Luxury tax administration is generally more effective among the northern states than in the South, where there is much illegal evasion of tobacco taxes in particular.
5. The cost of collecting luxury taxes cannot be determined exactly in most instances, since the officials charged with collecting them usually collect other taxes at the same time and no expense allocation is made for each tax. Furthermore, some states pay commissions to agents handling stamps and later make refunds to some purchasers without making any deductions from the amounts paid stamp dealers. Such practices make impossible any accurate calculation of the percentage of collections expense to face value of stamps sold. In a few instances where reliable data have been available it appears that the costs of collecting luxury taxes under a sound system of administration need be no higher than those entailed in collecting income taxes and other direct state levies.
6. The success of any consumption excise tax as a revenue measure depends largely upon the degree of coöperation between state and local authorities, and upon the attitude of merchants and other taxpayers. The consumer will not ordinarily offer strenuous opposition to the enactment or enforcement of luxury tax laws unless he is given a false impression of them by business men or politicians who are eager to see them fail.
7. The best preventive for evasion of tobacco taxes seems to be to make the tax applicable to all forms of tobacco. Such a tax should be a specific duty paid by affixing revenue stamps to the taxed product or products.
8. The states levying luxury taxes are predominantly agricultural, and in most instances such taxes have been put into force to relieve general property from further taxation.
9. In only one instance, that of South Carolina, has a program of luxury taxation been developed by any state to the point where it is an important source of revenue.

10. Illegal evasions can be largely eliminated by (a) making illegal possession of goods in packages upon which no tax has been paid; (b) by procuring a federal law which will require that all goods subject to tax that are shipped in interstate commerce be plainly marked on the outside of the package with the name and address of the shipper and that of the consignee, as well as a statement of the nature of the contents and their value; (c) by the passage of uniform taxing laws as between states; (d) by requiring that all manufacturers, wholesalers, and retailers operating within the state be licensed for each type of taxed product in which they deal, and that such license be issued subject to the giving of proper bonds by the licensee to the state; (e) by the passage of legislation authorizing state tax officials or local peace officers to seize, and giving the state tax commission or other administrative body the power to condemn, any vehicle other than a common carrier which has been used in the transportation of contraband goods; (f) making the penalties for law violations with respect to stamping, licensing, counterfeiting of stamps, etc., severe enough to discourage intentional violations; (g) by giving authority to inspecting officers to enter any business premises at any time without warrant to make examinations of books, papers, and records, as well as to look for violations of licensing or stamping provisions; (h) giving the state tax commission or other body charged with the administration of luxury tax laws authority to fix its own penalties for violations and to enforce them; (i) by developing a proper degree of coöperation between state tax officials and out-of-state mail order houses and other business establishments likely to sell taxable goods to customers within any state where consumption of such goods by the purchaser would constitute a violation of the law.

11. The proceeds of luxury tax collections ordinarily do and should go to the general fund of the state or, in the case of license fees, to the general fund of the county or local community. If such collections are set aside for specific purposes, receipts may prove inadequate to meet fully the particular needs for which such apportionment of tax receipts has been established.

12. Luxury tax rates are usually quite high, but even if they were higher there is no good evidence to show that they need prove extremely burdensome to the poorer classes, or that the consumption of luxuries would decrease as the result of such increases in rates.

13. A luxury tax program based upon a few selected commodities is best from every point of view. Under such a plan consumers will pay taxes much more readily than if a wide range of goods and services is taxed. Furthermore, if the former policy is followed, the taxpayer can easily evade any luxury tax in a legal manner and still enjoy about an equivalent amount of satisfaction by making substitutions, while a comprehensive system of so-called luxury taxes would be extremely burdensome to the poorer classes.

Under the above-mentioned plan costs of collection would be distributed over a few items from which tax receipts would be comparatively large, and would undoubtedly be less than costs incurred in collecting taxes levied over a wide range of luxury goods and services. Furthermore, as the experience of the federal government during the World War period has shown, the problems of administration arising in connection with a series of luxury taxes are both numerous and difficult.

14. Tobacco taxes, admission taxes, and taxes levied upon bottled soft drinks are good revenue producers and have not generally been opposed except by business men. Malt taxes, on the other hand, are undesirable because of their temporary nature and because they tend to encourage habits that federal laws are designed to overcome. Likewise, a tax on

fountain drinks is unsatisfactory unless all fountain drinks, including milk, come within the scope of the definition of *fountain drinks.* Nor can cosmetics be taxed easily because of the difficulty that arises in defining the term itself. Playing cards, if taxed, might yield some revenue, although a tax levied upon a commodity of this type might be subject to considerable interstate evasion.

15. It is suggested that a desirable step in the direction of tax simplification in this country would be the surrender of tobacco taxes, or at least the proceeds of such taxes, by the federal government to the states. Under this arrangement the national tax administration would collect all taxes levied upon tobacco products and then distribute the proceeds to the states upon the basis of population. And some people have suggested that the states surrender all claim to the personal income tax to the federal government so that the latter might recoup any loss of revenue suffered as a consequence of having given up tobacco tax receipts.

16. Another possible development in the direction of tax reform might be for the states to exempt tangible personalty now held by individuals—such as fur coats, jewelry, automobiles, works of art, etc.—but at the same time make the sale of such goods subject to a heavy federal luxury tax. A tax of this nature would reach billions of dollars' worth of taxable goods which, for the most part, never get on the tax rolls and would yield much larger revenues than present taxes levied upon personalty do.

17. Luxury taxes, if adopted, may be justified on the following grounds:

(a) They reach goods and services the consumption of which is entirely voluntary. Furthermore, if any person be denied the right to consume the taxed goods or services by reason of the tax, his position as a member of society will in no wise be injured.

(b) Luxury taxes are not regressive enough in fact to injure the poorer classes and, since they are paid in almost imperceptible amounts, they are not felt.

(c) Luxury taxes are levied frequently upon goods and services that are anti-social in their nature, or at least are not significant as affecting the economic efficiency of the consumer, and to that end such taxes are socially desirable.

(d) Luxury taxes can be as successfully and economically administered as other forms of taxation. Whether they are or not depends mainly, as in all other cases, upon the competence and integrity of taxing officials and upon how well the law has been framed.

(e) Luxury taxes are excellent revenue producers.

(f) Luxury taxes offer future relief for general property taxpayers who may not be able to bear as heavy burdens later as they are now obliged to carry.

(g) Every citizen should, as a social duty, pay something to the support of the state. Luxury taxation makes it possible for society to reach those incomes which are either outside of the range of other tax levies or are tax exempt.

2. Luxury Sales Tax Possibilities in North Carolina

A matter of deep concern is how much revenue can a luxury tax be expected to raise in North Carolina. That depends upon the nature of the tax and how efficiently it is administered. The latter point does not concern us. We can assume that our revenue department is efficient.

Let us assume that North Carolina adopts the South Carolina schedules. The following table, based on data supplied by the South Carolina Tax Commission, shows the amount of revenue South Carolina has derived from her luxury tax laws.

Year	Revenue	Year	Revenue
1924	$1,194,932	1928	$3,627,312
1925	2,520,352	1929	3,841,796
1926	2,415,788	1930	3,552,994
1927	3,074,975	1931	3,226,815

The above totals do not include tax levied on contractors, which might be considered a form of sales tax.

As everyone knows, South Carolina has not been a prosperous state for several years. Let us take the average revenue for the last three years as representative of South Carolina, and as a basis on which to calculate what the South Carolina plan would raise in North Carolina. The average for South Carolina for the last three years has been $3,540,535. We will approach the estimates from several angles.

The 1930 United States Census of Distribution reports total retail sales in North Carolina during the year 1929 as being $744,136,243. The South Carolina total was $299,037,807. The North Carolina total was two and one half times the South Carolina total. Assuming that the states spent relatively the same amounts on luxuries—a safe assumption for North Carolina—it is calculated that North Carolina would have raised, on the basis of the three-year average, $8,852,500. We would have raised in 1929, using respective retail sales and the 1929 revenue for South Carolina as a basis, $9,605,000.

State	Retail trade	Per cap.	Per cent U. S. sales	Per cent U. S. pop.
North Carolina	$744,136,243	$235	1.49	2.6
South Carolina	299,037,807	172	.60	1.4

Mr. W. G. Query, Tax Commissioner of South Carolina, estimates that at least 85 per cent of the luxury taxes in his state are paid by white people. The 1930 census shows that the white population of North Carolina is 2.4 times as large as that of South Carolina. It is a matter of record that the per capita income of North Carolina is above that of South Carolina, white and Negro. Thus it is safe to assume that the white people of North Carolina will spend at least 2.5 times as much on luxuries as the whites of South Carolina. There are, in addition, about 16 per cent more Negroes in North Carolina than in South Carolina, so that they can be expected to spend more than the South Carolina Negroes. From the racial approach it is conservatively estimated that North Carolina spends two and one half times as much on luxuries as South Carolina. This checks with the retail expenditures data.

It is well known that urban people spend more on luxuries and otherwise than do farm dwellers. Urban people smoke more, go to movies more frequently, drink more soft drinks, eat more high-priced candy, etc. The 1930 census shows the following facts about population for North and South Carolina.

	Total pop.	Farm pop.	Urban and other non-farm pop.
North Carolina	3,170,276	1,599,918	1,570,358
South Carolina	1,738,765	916,471	822,294
	White population		Negro and other
North Carolina	2,234,948		935,328
South Carolina	944,040		794,725

The percentage of people who live on the farm is smaller in North Carolina than in South Carolina. Our total non-farm population is nearly twice as large as South Carolina's. But more significant is the fact that the white urban population of North Carolina is 2.5 times as large as the white urban population of South Carolina. Assuming that the white urban people of both states spend the same amount per capita on luxuries—a safe assumption because of our larger per capita income—we arrive

at the same estimate as formerly, namely, that South Carolina's luxury tax plan will raise 2.5 times as much revenue in North Carolina as in South Carolina.

The per capita wealth of North Carolina is greater than that of South Carolina. The National Industrial Conference Board estimates the per capita wealth of North Carolina for 1929 as $1,737.00, and for South Carolina as $1,593.00. The total true wealth of North Carolina is more than twice that of South Carolina. Naturally, expenditures are largely in line with the wealth of the people.

The per capita income of North Carolina is about that of South Carolina. With a present population nearly twice that of South Carolina, it is obvious that our total income is more than twice that of South Carolina. Naturally there is a close connection between expenditures and income. As has been pointed out, the Census of Distribution covering 1929 shows retail trade in North Carolina to be two and one half times as large as in South Carolina.

Thus, approaching the estimates from several angles, we come to the same conclusion over and over again that a sales tax of any sort, general or luxury, can be expected to raise around two and one half times as much revenue in North Carolina as it will raise in South Carolina. We have the South Carolina experience over a period of years. It is a simple matter to calculate the North Carolina expectancy. These calculations are not open to debate. They are based on official, authoritative, and reliable data. It is well known that there has been much evasion of these taxes in South Carolina. With similar laws in both states, and sales taxes in Georgia and Tennessee, there would be much less evasion than otherwise. In other words, we could expect to collect the anticipated revenue with a minimum of evasion. The only possibilities for less than two and one half times South Carolina's collections are decreased incomes and thus decreased expenditures, and less efficient administration of the laws.

Another important fact to keep in mind is that the population of North Carolina is increasing much more rapidly than that of South Carolina. The 1920 to 1930 increases were 23.9 per cent for North Carolina and 3.3 per cent for South Carolina. Thus the income from luxury taxes could be expected to increase much more rapidly in this state. The population of North Carolina by January, 1933, will be approximately 3,356,000 if it continues to increase at the rate at which it increased from 1920 to 1930. Our large population increase must be considered when it comes to estimating how much revenue a sales tax will yield during a period of falling prices and declining income.

The year 1931 was by all odds the worst business year in recent decades. It probably marks the trough of the present depression. It was an especially hard year in South Carolina, a cotton and textile state. Yet in 1931 the South Carolina luxury tax raised $3,226,815. If we apply the 2.5 index for North Carolina over South Carolina, we find that her sources would have raised $7,967,000. Actually, business in North Carolina is better than in South Carolina. Population is increasing more rapidly. If conditions get no worse than they were in 1931, it seems that on the face of all the facts one can marshal the South Carolina luxury plan should raise eight million dollars in North Carolina. Seven millions are certainly a minimum estimate, based on what appear to be the facts.

Estimated Yield of Taxes on Certain Commodities in North Carolina

Commodity	*Estimate*	*Rate of tax*	*Other assumptions*
Tobacco, cigars, and cigarettes	$4,000,000	20 per cent retail price	2.3 times South Carolina's collections. Also checked against Tennessee.
Admissions to theatres, movies, concerts, dances	$700,000	10 per cent retail price	2.4 times South Carolina's collections. Our white urban pop. is 2.5 times hers. Our urban pop. 2.4 times hers.
Soft drinks, bottled and fountain	$2,880,000	20 per cent retail price	2.4 times South Carolina's collections.
Chewing gum and substitutes	$370,000	1 cent for each 5 cents	1.5 per cent U. S. consumption. Our pop. is 2.5 per cent. Based on U. S. Dept. of Commerce.
Playing cards	$75,000	10 cents a pack	1.2 per cent U. S. sales.
Jewelry	$300,000	5 per cent of gross retail sales	Based on federal collections of 1923, adjusted to 1931.
Documentary	$500,000	4 to 10 cents per $100, mainly. Also other rates	2.3 times collections in S. C.

STATE RECEIPTS FROM SOME EXCISE TAXES, 1922-1930*

C. E. Allred, *University of Tenn.*

(In thousands of dollars)

Commodities taxed, state and date when originally imposed	1922	1923	1924	1925	1926	1927	1928	1929	1930
Southern States:									
Alabama**									
Tobacco (1927), lubricating oils (1927)							1133	1492	1474
Arkansas									
Tobacco (1926)					713	489	906	900	
Georgia									
Tobacco (1924), kerosene (1927)			702	730	718	926	966	1023	
Louisiana									
Kerosene (4 mos. 1926) ..					84	229	238	212	
S. Carolina									
Tobacco (1923), soft drinks (1925), documentary (1924), admissions (1923)		748	837	2513	2410	3074	3621	3833	3553
Tennessee									
Coal oil (1925), tobacco (part 1925), malt (1929), carbonic acid gas (1929)			470	996	1590	1747	2053	2285	
Total for 6 southern states....		748	2009	4239	5515	6465	8917	9745	
Other States:									
Connecticut									
Amusements and admissions (1922)	134	244	289	139	12	191	204	167	140
Iowa									
Tobacco (1922)	593	641	700	777	828	903	1183	1326	
Kansas									
Tobacco (1928)							689	698	682
Michigan***									
Boxing and wrestling (1925), malt (1930)				21	13	54	96	1109	
Montana									
Boxing receipts (1924)			3	3	3	3	3	3	3

New Jersey**** Boxing and wrestling (earlier)	62	89	104	60	60	47	63	102	
New York Boxing receipts (1922, license earlier)	164	179	232	168	198	220	260	200	
N. Dakota Tobacco (1925)				57	270	263	366	350	326
Pennsylvania Boxing and wrestling (1927) and private bankers' gross receipts (earlier)	42	46	44	40	62	97	107	113	
S. Dakota Tobacco (1924) malt (1930)			202	209	317	276	362	406	485
Utah Tobacco (1923) oleomargarine (1929)		78	105	118	130	130	133	202	
Total for 11 other states	995	1277	1679	1592	1893	2184	3466	4676	
Grand Total: 17 states	995	2025	3688	5831	7408	8649	12383	14421	

*Calendar-year statistics are shown where possible; in some cases data are for fiscal years ending June 30. **Taxes in effect only 9 months in 1928. ***Tax on malt for fiscal year ending June 30, 1930, is added to boxing tax for 1929. Amount of malt tax revenue is $990,762.69. ****In addition to the figures shown, there were receipts from New Jersey of 67 thousand dollars in 1920, and 171 thousand dollars in 1921.

The following table, based on data supplied by the South Carolina Tax Commission, shows the amounts collected from her consumption taxes from 1924 to 1931.

TOTAL GROSS TAX COLLECTIONS FROM SOUTH CAROLINA LUXURY TAX, 1924-1931

Kind of Tax	1924	1925	1926	1927
Business license*	$ 837,230.60	$1,090,697.70	$ 939,202.73	$1,501,340.90
Documentary	198,883.55	342,553.66	273,108.83	287,321.51
Admissions	151,017.52	199,438.67	197,473.14	261,239.37
Pool room	7,800.00	7,400.00	6,006.74	6,125.00
Soft drinks		880,262.37	999,943.81	1,018,948.97

Kind of Tax	1928	1929	1930	1931
Business license*	$1,812,139.59	$1,975,371.32	$1,907,825.77	$1,751,367.69
Documentary	342,771.00	314,463.61	274,099.08	228,532.80
Admissions	273,890.94	302,382.15	283,729.65	261,570.25
Pool room	8,250.00	8,973.94	10,400.00	15,675.00
Soft drinks	1,190,260.85	1,240,703.61	1,076,939.93	969,669.47

*Includes tax on manufactured tobacco products, candy, ammunition, playing cards, and malt.

Major References:

(1) Tower, Ralph Burnett. "Luxury Taxation and its Place in a System of Public Revenue," *Special Report No. 4 of the N. Y. State Tax Commission.* 1931. 235 pages. The best treatise on this subject, complete, up-to-date.

(2) Blakey, Roy G. *Report of Taxation in West Virginia,* a report submitted to the Governor. 1930. 452 pages. Chapter IX deals with Sales Taxes. An excellent, up-to-date volume on state taxation and tax systems.

(3) Derrick, S. M. *National Tax Association Report,* 1929, pp. 263-275. On the South Carolina luxury tax.

(4) *General Sales or Turnover Taxation,* National Industrial Conference Board. 1929. 204 pages.

(5) *Sales Taxes, General, Selective, and Retail.* National Industrial Conference Board. 1932. 79 pages.

SELECTED COMMODITIES TAX IN SOUTH CAROLINA

W. G. Query, *Tax Commissioner of South Carolina*

Because of the deflation which followed the World War and the decrease in cotton production, due to the advent of the boll weevil, from 1,700,000 bales in 1920 to 787,000 bales in 1921, the South Carolina General Assembly of 1921, in an effort to relieve agriculture of an increased tax burden, appointed a special commission for the purpose of studying the state tax system and directed it to make recommendations as to new sources of revenue. Based upon the recommendations of the commission, the general assembly in 1922 enacted income, inheritance, and gasoline tax laws. The revenue to be derived from income and inheritance taxes was to be used for state purposes only, while the revenue from the gasoline tax was to be used in the construction and maintenance of a state highway system. In a further effort to distribute the tax burden, the general assembly in 1923 enacted laws imposing taxes for the privilege of dealing in cigars, cigarettes, smoking tobacco, ammunition, and candy retailing at eighty cents per pound and above. A tax was imposed for the privilege of operating places of amusement, and a stamp tax was placed on documents. Revenue derived from the taxes mentioned above resulted in the decrease of the state levy on property from 14 mills in 1920 to 7 mills in 1923.

The opposition to the stamp taxes having subsided to a great extent, the general assembly in 1925 imposed a tax on snuff and plug tobacco, two products which were not included in the 1923 act. It also levied a tax for the privilege of dealing in soft drinks and cosmetics, which further reduced the state levy on property to five mills and permitted the general assembly to make an increased appropriation for state purposes, including state aid to public schools under the provisions of the 6-0-1 school law.

The opposition to the soft drinks tax law was so strong that the first act was a part of the state appropriation act inserted by the Free Conference Committee and was imposed only until April 1, 1926; but in 1926, although a determined fight was waged against the re-enactment of the law, a bill containing the provisions of the 1925 act was passed by both branches of the general assembly. It will be of interest, in view of the defeat of the bill introduced in the North Carolina general assembly in 1931 imposing a tax on tobacco products, to know that the first re-enacting bill imposing the tax on soft drinks in South Carolina was passed by the house in 1926 but was killed in the senate. The house passed a second bill which was also killed in the senate. For the third time the house sent the senate a bill taxing soft drinks, and after prolonged consideration the bill was finally passed by the senate, though it was to be effective only until April, 1927. The tax imposed on cosmetics in 1925 was repealed by the revenue act of 1926.

By 1927 the opposition to the commodities tax had virtually ceased. Merchants who were at first opposed to the law became its most ardent champions as they realized that the revenue raised from this source relieved them of property taxes. At its 1927 session the general assembly re-enacted all of the selected commodities taxes then in force, making such re-enactment a part of the permanent revenue laws of the state. The 1927 act, in addition to increasing the rates on tobacco products, contains many salient administrative features, which were not parts of former acts but were based on the experience gained by the Tax Commission in the administration of the previous laws. Several amendments have been enacted to the 1927 act, most of which are administrative provisions. However, one which removed practically all opposition to the laws was the provision allowing discounts to merchants and soft drinks manufacturers and dispensers.

The above briefly sets forth a background for the presentation of the laws which may be termed selected commodities tax laws.

Commodities Taxed, with Rates and Revenue Derived Therefrom

Manufactured tobacco products, certain candies, ammunition, playing cards, and malt.

Cigars: Cigars weighing more than three pounds per thousand, retailing for over three cents each—$10.00 per thousand; weighing more than three pounds per thousand, retailing for three cents each or less—$3.00 per thousand. This rate applies to cheroots, stogies, etc., which ordinarily retail for three cents or less. The tax is paid by affixing stamps to the box or container in which or from which sold at retail. The stamp is so affixed to the box or container that it will be broken when the box or container is opened.

Cigarettes: Cigarettes made of tobacco or any substitute therefor, one cent for each five cents or fractional part thereof of the customary retail selling price. The cartons must be broken and stamps affixed to each individual package of cigarettes.

Smoking tobacco: One cent for each five cents or fractional part thereof of the customary retail selling price. The container must be broken and stamps affixed to each individual package of tobacco.

Snuff and chewing tobacco: One cent for each three ounces or fractional part thereof. On chewing tobacco the stamps must be affixed to the box or container in which or from which sold at retail. All cartons of snuff must be opened and stamps affixed to each individual package.

Ammunition: Shotgun or other shells and all cartridges of 23 calibre or greater, $4.00 per thousand rounds. Stamps must be affixed to each individual box of shells or cartridges.

Candy: Candy retailing at 50 cents per pound and above, 1 cent for each 10 cents or fractional part thereof of the retail price. Individual, factory-wrapped packages of candy retailing for 10 cents or less are exempt. Stamps must be affixed to each individual package. The original act taxing candy retailing at 80 cents a pound and above was amended in 1930, and candy retailing at 50 cents per pound and over was taxed.

Playing cards: Five cents on each fifty cents or fractional part thereof of the retail selling price. Stamps must be affixed to each individual package of cards.

Malt: Two cents a pound. Stamps must be affixed to each individual package.

All stamps required to be affixed to the above enumerated articles must be affixed in such manner that their removal will require continued application of steam or water. Every dealer (wholesale or retail) handling manufactured tobacco products is required to secure a license for the privilege of dealing in such products. A penalty is imposed for failure to secure such a license or to keep it displayed in some place easily seen by the public. No charge is made for this license when originally issued, but if it is lost or destroyed a duplicate license costs the dealer $1.00. Any license issued may be revoked under certain conditions. Up to 1927 stamps were required to be affixed by retail dealers only, but beginning in 1927 the law required stamps to be affixed by wholesale distributors within seventy-two hours after such taxable articles came into their possession, and by retail dealers within twenty-four hours after being received, unless offered for sale sooner.

Retail dealers are required to furnish the Tax Commission with a copy of all invoices covering drop shipments of tobacco received by them from points without the state. Refunds are issued to South Carolina dealers on all shipments of taxable articles made to dealers in other states, as well

as on sales made to United States government agencies. Refunds are also made covering unsalable articles. Wholesale dealers vigorously opposed the provisions of the law requiring them to affix stamps to taxable commodities on the grounds that it would involve a large investment of money to stamp entire stocks, and would impose an unreasonable burden in opening cases and cartons and affixing stamps to large quantities of tobacco. These objections were met by amending the law to allow wholesalers to furnish surety bond and purchase stamps on consignment, making monthly remittances as stamped goods were sold, and, as compensation for their trouble and expense in affixing the stamps, a discount of ten per cent on all stamp purchases of $50.00 and over is allowed. Discounts are allowed to all merchants, wholesale or retail, where stamps are purchased in sufficient quantity for cash or on consignment. When allowed discounts, the wholesalers are satisfied and the state is enabled to get a much wider distribution of stamps throughout the state, since every wholesaler keeps a supply of stamps on hand for his own use, as well as for sale to small merchants who may receive drop shipments of taxable articles. On stamps sold by wholesalers in small lots to retailers, the wholesaler makes a profit of ten per cent, which is more than is ordinarily made by the wholesaler on the sale of taxable commodities.

The stamps used in denoting the tax imposed are distributed by the Tax Commission. The first stamps used were prepared in sheets of one hundred stamps each, but later it was found desirable to have the stamps prepared in book form, which made it much more convenient for distribution from the central office and for the merchants handling the stamps.

In 1927, when the wholesalers were required to affix stamps, the size of the most popular denominations was changed to the size of the United States postage stamps and they were put up in rolls to conform to the multipost stamp machine, thus enabling merchants to affix stamps to taxable articles more readily.

The most radical change in previous acts, yet one which provides the real teeth in the enforcement of the stamp tax law, is the authority given agents of the Tax Commission and peace officers throughout the state to seize all taxable articles which have not been stamped in accordance with the law. The year following the enactment of the seizure provision, despite the discount allowed effective at the same time, the revenue derived from the taxable articles above listed increased more than $300,000.00 Such a radical departure from ordinary tax administration was an experiment, but the courage displayed by the general assembly in passing such amendment has been more than justified, not only from the standpoint of increased revenue but also in creating a wholesome respect for the law. Wholesale dealers have too much at stake to subject their goods to seizure, and retail violators have decreased annually since the enactment of the seizure provisions. In addition to the seizure provisions of the law, penalties for failure to affix stamps to taxable articles are imposed. The penalty is not less than $20.00 and not more than $100.00 for each and every offense. Each unstamped article found in the possession of dealers is considered a separate offense. The Tax Commission, however, has the authority to compromise such violations. Trial by jury is provided if application for such trial is filed with the Tax Commission within ten days after formal notice of a violation has been served upon the alleged violator.

Revenue derived: The tax imposed upon the commodities enumerated above is classed as business license tax. The stamp used in denoting the payment of the tax on such articles contains the words "Business License Tax," and in all the reports of the Tax Commission showing revenue collected the amount derived from tobacco products, candy, ammunition, playing cards, and malt is called "Business License Tax."

For the calendar year 1928, the first full year under the amended laws, the net revenue derived from the sale of business license stamps was $1,812,139.59. The following year the peak of collections was reached—$1,975,371.32. Sensitive to the downward trend of general business, the revenue for the year 1930 was $1,907,825.77. A further decline is noted for the year 1931—the total collections being $1,751,367.69. The year 1931 was the most disastrous business year experienced by South Carolinians in many years. With the textile industry operating only part time, with approximately one hundred bank failures, with tobacco and cotton—the two main crops—selling at the lowest prices in many years, the purchasing power of South Carolinians was greatly reduced. Hence, the decreased tax collections.

It may be well to say at this point that the revenue from the commodity taxes did not decline in as great a percentage as did income taxes, nor in as great a percentage as the collection of property taxes. The opponents of the South Carolina commodity taxes, particularly tobacco manufacturers, advance the argument that the taxes imposed curtail the consumption of tobacco products, but figures showing the decline in the consumption of tobacco products indicate no greater decrease than in the consumption of general merchandise, and such decline in the consumption of tobacco products applies in states which do not impose a tax on tobacco products, as will be seen from the report of the United States Internal Revenue Commissioner.

Soft Drinks Tax

On bottled drinks the tax is one cent for each five cents or fractional part thereof of the retail selling price. On fountain drinks the tax is levied upon the syrups used in mixing drinks at the rate of seventy-six cents per gallon.

Like the taxes enumerated under the head of Business License Tax, the tax imposed on soft drinks was intended to be a consumers' tax, in practice, even though the tax be paid by the dealer as a license tax for the privilege of conducting a business. The tax imposed was intended to add one cent to each five-cent drink on the popular bottled drinks in South Carolina retailing for five cents. As to the fountain drinks, it was found, under the original law enacted in 1925, that a gallon of coca-cola syrup would average seventy-six drinks. Therefore, in 1927 the soft drinks law was amended so that instead of imposing a tax of twenty per cent on the gross receipts of the fountains, a tax was placed upon syrups at seventy-six cents per gallon, resulting in approximately a tax of one cent for each five-cent drink, two cents for each ten-cent drink, etc.

The tax on bottled drinks bottled in South Carolina is denoted by the use of a bottle crown or cap with a special design adopted by the Tax Commission. The crowns are manufactured and sold direct to the bottler upon presentation of a certificate issued by the South Carolina Tax Commission to bottlers. The crown manufacturer maintains a warehouse in Columbia from which all deliveries of crowns are made to bottlers at prices agreed upon between the crown manufacturers and the bottlers. The Tax Commission has nothing whatever to do with the price of the crown. The crown manufacturer, selected by the Tax Commission to furnish state-designed crowns, sells crowns at prices as low as in other states. The only control which the Tax Commission has in the matter is to issue the bottler a certificate authorizing the agent of the crown manufacturer to deliver to the bottler the number of crowns stipulated in the certificate issued. The number of crowns stipulated in the certificate issued to the bottler is the basis of the tax charged against the bottler at the rate of $1.44 per gross for crowns for five-cent drinks, less ten per cent discount allowed by law. Stamps are required to be used in denoting the payment of the

tax imposed on syrups and bottled drinks shipped into the state. Stamps are affixed to the container in which syrups are received or dispensed at the rate of seventy-six cents per gallon. A discount of ten per cent is also allowed purchasers of soft drinks stamps.

The revenue derived from the soft drinks tax has been materially affected on account of the poor business conditions that have existed and still exist throughout the state. In 1928, the first full year after the adoption of the use of state-designed crowns on bottled drinks and the use of the stamp in denoting the payment of the tax on fountain syrups, the total tax collected, less discounts allowed, was $1,190,260.85. The peak, as in the business license tax collections, was reached in 1929, a normal business year, the net revenue being $1,240,703.61. For the years 1930 and 1931 the collections were $1,076,939.93 and $969,669.47, respectively.

Amusement Tax

Upon all paid admissions to places of amusement, public bathing places and public dance halls, or elsewhere, a license tax of one cent for each ten cents or fractional part thereof of the admission price is imposed. Admissions to athletic contests between high and grammar schools, state, county, and community fairs, local or non-professional talent plays and pageants, and athletic contests played by textile athletic teams are not subject to the tax, provided the proceeds do not inure to any individual or player in the form of salary or otherwise. Places of amusement are licensed, have the option either of affixing stamps to tickets purchased by them direct from ticket manufacturers or of making monthly returns of the sale of state-designed tickets furnished free by the Tax Commission. Under the provisions of an amendment to the amusement law adopted by the 1932 general assembly, a discount of ten per cent is allowed on the amount of the tax due each month in case the amusement operator uses state-designed tickets. Operators of all places of amusement are required to furnish bond to protect the state in payment of any tax due.

Because of the exemptions which have been provided from time to time since 1929 and the failure of the South Atlantic Baseball League, the revenue from the admissions tax act has decreased from $302,382.15 in 1929, the peak year, to $261,570.25 in 1931.

Documentary Tax

Notes, bonds, transfers of real estate, stock certificates (both original issue and transfers), proxies and power of attorney executed within South Carolina are subject to documentary tax. The payment of the tax is evidenced by affixing documentary tax stamps to the documents taxable, except in the case of original issues and transfers of stocks, in which case the stamps are affixed to the stock book. The rate of tax is as follows: promissory notes and written obligations to pay money, assignments of salaries, wages, or other compensation, 4 cents for each $100.00 or fractional part thereof of the face value of the instrument. Bonds, debentures or certificates of indebtedness, and all instruments known generally as corporate securities, 10 cents on each $100.00 or fractional part thereof of the face value. Capital stock, original issues, 10 cents on each $100.00 or fractional part thereof of the face value. Where a certificate is issued without face value the tax is 1 cent for each $10.00 or fractional part thereof of the value of the certificate, unless the actual value is in excess of $100.00 per share, in which case the tax shall be 10 cents on each $100.00 of actual value or fractional part thereof. Capital stock sales or transfers, 4 cents on each $100.00 or fractional part thereof of the face value. Conveyances and instruments whereby any lands, tenements, or

other realty are transferred, conveyed, vested, etc., $1.00 for each $500.00 or fractional part thereof. Proxies, 20 cents for each instrument. Power of attorney, 50 cents for each instrument. The administrative provisions of the documentary tax act require clerks of court and registers mesne conveyance to refuse to record any instrument which may be taxable under the provisions of the act, where said instrument has not affixed to it the stamps required by law.

The revenue derived from the documentary tax has shown wide fluctuations. In 1928 the revenue amounted to $342,771.00. It decreased to $314,463.61 in 1929, to $274,099.08 in 1930, and to $228,532.80 in 1931. The annual decrease since 1928 can be attributed to an inactive real estate market, the minimum issuance of original capital stock and transfers of stock, and the inability of great numbers of our citizens to negotiate loans or continue the unusually large volume of purchases on installment plan.

Total Revenue from Selected Commodities Tax and Cost of Administration

Beginning with 1928, the first full year following the enactment of important changes in the laws which are now in force, and through the year 1931 the revenue actually turned into the state treasury was as follows:

	1928	1929	1930	1931
Business license	$1,812,139.59	$1,975,371.32	$1,907,825.77	$1,751,367.69
Soft drinks	1,190,260.85	1,240,703.61	1,076,939.93	969,669.47
Admissions	273,890.94	302,382.15	283,729.65	261,570.25
Documentary	342,771.00	314,463.61	274,099.08	228,532.80
	$3,619,062.38	$3,832,920.69	$3,542,594.32	$3,211,140.21

Cost of Administration

The total revenue collected by the Tax Commission for the year 1929 was $14,351,514.78. The amount appropriated for the divisions of the Tax Commission administering the laws was $187,501.00, or approximately 1.3 per cent of total collections. The license tax division, which administers the selected commodity tax laws, also administers gasoline, corporation license, and contractors tax laws. The collection from these three sources for the year 1929 was $8,043,220.42, and in order to arrive at the approximate cost of the administration of the selected commodity tax laws it is necessary to allocate to each particular tax an amount for the collection of such tax.

The total appropriation for the division administering the selected commodity tax laws, the gasoline, corporation license, and contractors tax for the year 1929 was $95,400.00. By eliminating the salaries of clerks, auditors, and field agents, whose duties are confined solely to the administration of gasoline, corporation license, and contractors taxes, and by apportioning salaries and traveling expenses in proportion to the time devoted to such laws by clerks, auditors, and field agents, who, in part, assist in the administration of gasoline, corporation license, and contractors tax laws, the Tax Commission has been able to ascertain, with a fair degree of certainty, that the cost of administering the selected commodity tax laws for the year 1929 was $70,000.00, to which must be added $24,000.00 (the cost of printing stamps and tickets), making total cost of $94,000.00, or two and one-half per cent of $3,832,920.69 collected that year.

Attitude of Public

The selected commodities tax or the indirect tax, as it is termed in South Carolina, has without doubt become a permanent part of our state revenue system. It is accepted without argument by the people of South

Carolina, and there is now no suggestion that any part of it be interfered with. South Carolina has found this tax a source of great strength in the present emergency. Property values are rapidly decreasing and delinquent taxes threaten a severe shortage in property tax collections.

As a fair example of the attitude of the public towards the selected commodities tax laws, at a meeting of the Farmers and Taxpayers League, held in Columbia early in January of this year, the League unanimously approved the so-called nuisance taxes as being the only substantial relief given real estate owners in years, and the advocacy of such taxes by the speaker was praised by the League.

Consumption excise taxes in South Carolina were fully covered in a paper presented by Dr. S. M. Derrick, Professor of Rural Economics in the University of South Carolina, before the 1929 conference of the National Tax Association and, with the permission of Mr. Derrick, I quote from his paper.

> Consumption excise taxes have experienced fuller development in South Carolina than in any other state. There may be some objection to this form of taxation, but in South Carolina it was from dire necessity that this field was entered. The whole underlying reason for the enactment of these laws was the relief of tangible property. South Carolina primarily is an agricultural state. Faced with increasing cost of government and a disastrous shrinkage in the value of farm property, it was imperative that other sources of revenue be sought.
>
> A tax on property is a tax on a necessity. A tax on tobacco and soft drinks is a tax on non-essentials. We are able to justify these taxes on the ground that they reach a class of people who otherwise pay no taxes. Under the property and income tax system, only those who own property or enjoy an income above a certain amount contribute to the support of government. Consequently only a small proportion of the population bear this burden. Large numbers of wage earners, men without families, etc., escape. A tax on non-essential commodities of wide use would reach this class. There are relatively few who are not consumers of tobacco products, soft drinks, or other similar commodities, and it was reaching this group that enabled the Tax Commission to say in its report of 1925: "On account of the indirect taxes a greater percentage of the citizens of our State are contributing to the cost of State Government than any other State in the United States."

Estimated Revenue if the South Carolina Commodities Tax Law Were Adopted by North Carolina

At the invitation of those interested in the adoption of a commodities tax law in North Carolina, I appeared before a committee of the North Carolina general assembly in February, 1931, explained the South Carolina law, and, on short notice, submitted estimates of the amount of revenue which would be collected if the South Carolina laws were adopted by North Carolina. Since I have been requested to submit estimates here, I wish to make the following statement.

It is assumed in making my estimate that the department charged with the administration of such laws would profit by the experience gained in the administration of like laws by other states, and from the beginning of such administration would set up a non-political organization which would efficiently and thoroughly collect the taxes imposed under the law. There will be evasions of the payment of the tax, but to no greater extent than is found under income and property tax laws, charges to the contrary notwithstanding.

Assuming that North Carolina adopts the South Carolina law, it is most reasonable to believe that North Carolina would collect as much per capita as has South Carolina. In arriving at the per capita collections I did not use the peak collections year nor the lowest collections year for the last four years, 1928 being the first year following the administration of the present law, but have used the average collections for the last four years, namely:

1928	$3,619,062.38
1929	$3,832,920.69
1930	$3,542,594.43
1931	$3,211,140.21
Total	$14,205,717.71

The four-year average was $3,551,429.43, or $2.04 for each of the 1,738,765 inhabitants of the state. Applying the $2.04 South Carolina per capita to the 3,170,276 inhabitants of North Carolina would have produced $6,467,362.00 annually for the last four years. Using the peak year (1929) collections of $3,832,920.69, or $2.20 per capita, would have produced in North Carolina $6,974,597.20, and using the lowest year collections (1931) during the four-year period $3,211,140.21, or $1.85 per capita, would have produced $5,865,010.60 in North Carolina. The result of applying South Carolina per capita collections to the inhabitants of North Carolina would be beyond controversy if the citizenry of both states comprised the same percentages of white and colored, the same percentages of rural and urban population, and if the purchasing power of each class was the same in both states. As such is not the case, the above figures are far below what should be derived from the laws under discussion.

In making estimates of revenue to be collected from the first commodities tax law, after a careful inquiry as to the purchasing power of the white population as compared with the colored, the Tax Commission arrived at the conclusion that the white population would pay eighty-five per cent and the colored population fifteen per cent of the taxes imposed, and used this conclusion as one of the bases of the estimate of revenue to be collected. The estimate was conservative, for the total revenue collected the first year was five per cent more than estimated.

Assuming that such basis would be safe in estimating possible revenue for North Carolina from laws under discussion and using the 1930 Census Report, we find figures on population as follows:

	White	Colored	Total
North Carolina	2,234,948	935,328	3,170,276
South Carolina	944,040	794,725	1,738,765

If the 944,040 whites paid 85 per cent and the 794,725 colored paid 15 per cent of the $3,551,429.43 four-year average collections, or $3.20 and 67 cents per capita, respectively, then the 2,234,948 white and 935,328 colored citizens of North Carolina would have paid $7,778,503.36 annually for the same period.

Example:	2,234,948	X	$3.20	=	$7,151,833.60
	935,328	X	.67	=	626,669.76
					$7,778,503.36

The above figures would be a true estimate of the amount of revenue to be expected from the laws under discussion if the proportion of urban and rural population were exactly the same in North Carolina and South Carolina, but as such is not the case, the figures do not reflect the larger revenue which can be depended upon. The South Carolina commodities tax is largely a city and town man's tax. The town and city dweller frequents

soda fountains, cigar counters, and places of amusement much oftener than does his rural brother. The very nature of the daily use of the articles taxed, the convenience with which they can be secured, and the habit formed by regular indulgence makes the tax a city man's and woman's tax in actual practice.

The United States Department of Commerce publication *Statistical Abstract of the United States* shows urban and rural population as follows:

	Urban	Rural	Total pop.
North Carolina	809,847	2,360,429	3,170,276
South Carolina	371,080	1,367,685	1,738,765
N. C. greater than S. C.	118.2%	72.6%	82.3%

The above figures are most significant to me and, while there does not develop a formula by which we can calculate how much more than the rural population the urban population spends per capita, I venture the guess that such purchases would have increased the total tax collections in North Carolina to more than $8,000,000.00. Extravagant estimate, guesswork pure and simple, will be the answer of some, but from another angle I can prove that my last figures are conservative.

North Carolina is a wealthier state than South Carolina, and this enables North Carolinians to spend more per capita than the citizens of my native state. The United States Census of Distribution (1930) reports retail sales for the year 1929 as follows:

	Total sales	Per capita
North Carolina	$744,136,243	$235.00
South Carolina	$299,037,807	$172.00
Per capita sales, N. C. over S. C.		$ 63.00
Percentage increase, N. C. over S. C.		36.6%

The four-year average collections under the present law were $2.04 per capita for South Carolina, and as the purchasing power per capita of North Carolina was 36.6 per cent greater than was that of South Carolina, the average annual collections for the last four years in North Carolina would have been $2.79 per capita, or $8,845,000; for 1931, $8,011,604.47; and for 1929, $9,527,300.

THE GENERAL SALES TAX

Frank Coxe, *Asheville, N. C.*

The recent condition of affairs has brought out very plainly that our existing forms of taxation are full of flaws and holes. It might be a very good method of approach to show where the gross receipts tax is strong in the very places that other taxes, such as the ad valorem and income tax, are weak, but I believe that the gross receipts tax can be made to stand on its own merits without a discussion bringing in our present troubles. In advocating a gross receipts tax, it would be better to tell you what I mean by the term. I mean simply a tax of small percentage, such as one or two per cent, on all sales of commodities or services from the producer to the consumer levied against gross receipts as recorded on the seller's books. I think this tax is fair, sound, and extremely practical in operation. To give you a clearer picture, I will read you an outline of what might be the form of such a levy, roughly this:

That there be and is hereby levied upon each and every business or individual involving the sale of any commodities or merchandise manufactured, and upon services furnished for fees a tax equal to .... per cent of the gross sales or receipts of such business. A return of such tax shall be made and the tax paid monthly on the fifth day of each calendar month on the business of the preceding calendar month, or if in any such calendar month such gross receipts shall be less than $500.00, the reurn shall be made and the tax paid on the fifth day of the first month succeeding the month or months the gross sales of which exceed $500.00. By gross sales, rents, and receipts is meant the actual amounts received without deductions of expense of doing business.

Such a tax would lie against the sales of the vendor (easily determined), with no compulsion upon the vendor to collect from any one else. He can handle it as he pleases, either passing it on definitely or absorbing it as any other item of expense. All business would be in the same position, with no discrimination against one to benefit the other.

The state has no concern except with the collection of the tax, and competitive merchants and business men who have to work out all forms of unequal expenses such as rents, wages, salaries, etc., to compete with each other should have no trouble figuring in an expense which is the same for all. These adjustments would come more easily than the adjustments required under ordinary daily business conditions.

There is a general opinion running through studies of taxation that there are four maxims or requirements which any form of government revenue should meet in order to be truly a successful and proper tax.

1. That all the members of the state should contribute toward the support of the government in proportion to their respective abilities.

2. The tax which each individual is to pay should be certain and not arbitrary—in other words, not dependent on some individual opinion or appraisal. An example of one tax that does not live up to this requirement is the ad valorem tax under which certain individuals guess at the value of a piece of property and the owner is taxed accordingly. Every one pays the same rate, but the values are a matter of opinion. This is a very fundamental weakness in the ad valorem system.

3. Every tax ought to be levied at the time or in the manner in which it is most likely to be convenient for the contributor to pay it. I take it that it is pretty obvious to every one that the easiest way to pay any tax is to pay it in small driblets as you go. The gasoline tax, which

in many cases runs around forty per cent, is without question the least painful and most satisfactory tax we have on the books. It meets this third requirement perfectly. How much easier would be a one or two per cent tax, paid as we go.

4. Every tax ought to be so contrived as to take and keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the state. This refers not only to expense of collection both to the state and to the business which pays but, equally as important, to the possible obstruction to trade and commerce which comes from a stifling and discouraging tax that handicaps incentive or invites evasion. My conviction is that this type of tax meets all these requirements, and if this impression was not made as I listed the four points it will be perhaps as I go into further distinctive advantages of the gross receipts tax.

The physical activities of the world are reflected in buying and selling, which always goes on. Tax this turnover properly and you are taxing something more substantial and definite than guesses on property values or problematical profits and income. You are at the same time lifting a burden which stifles competition and progress, and the wasteful flow of capital into tax-exempt securities will be diverted to more productive ends.

Under this tax a man of humble circumstances pays little since he buys little; the rich man pays much as he buys much; both definitely and without disguise contribute something toward the support of their government. There is a rough, elemental justice in this which seems to me should appeal strongly to the citizenship of North Carolina. From the standpoint of the state this is a most dependable and steady source of revenue. This is of the greatest importance. Naturally the volume of business fluctuates to some extent, but not to any degree comparable with the income tax. For instance, the income tax by its inherent nature tends practically to disappear in times of depression like the present. Hence at the very time our government is most in need of money this source is almost non-existent. Then the government raises tax rates on incomes that do not exist and profits that have not been made. We might as well go fishing in a stream where there are no fish simply because we are badly in need of fish. So I say that taxing the turnover of trade furnishes a steadier and very much more dependable source of revenue for the state.

Of equal importance is the fact that the gross receipts tax permits and encourages the accumulation of savings, the owning of homes, and the putting aside of the all-important "nest egg." In other words, it is a tax on spending widely different from most of our present forms, which hit directly against any effort to accumulate or to save. It is perfectly plain that the ad valorem tax strikes directly at a person's incentive to own his home, or to have a savings account, or to try to lay aside anything.

By its very nature this tax is simple in its collection from the standpoint of both state and taxpayer. It is an easy matter to keep a record of all receipts, and of great value is the fact that it brings collection of a major part of the revenue up to date instead of a year or more behind. The gasoline tax illustrates this perfectly. There are no back taxes, since every night when we go to bed our gasoline taxes are paid up to date; and what a tremendous benefit it would be if a major portion of our taxes were likewise paid up to date at the end of each day. We know too well the added expense of our government's borrowing ahead in anticipation of back taxes yet to be collected. This is most important for both taxpayer and government.

The gross receipts tax fits in admirably with the income tax. Several years ago one of the vice-presidents of the American Federation of Labor, representing the workingmen of the country, made a statement to this effect: that whatever inequalities might seem to exist in the two tax systems in question as against rich and poor tend to disappear when both systems are used. They tend to dovetail and when working together strike a happy balance. This point we would emphasize strongly. The income tax tends to strike directly against a small portion of the people who quite properly should pay such a tax. On the other hand, a broader base for our tax situation should be created by the inclusion of all of our population on a very small proportionate scale. That the two forms of taxation jibe should be apparent.

A very important feature of this sales tax is the fact that every one consciously contributes something toward the expense of government, and for that reason a sense of responsibility toward extravagant expenditures would be developed, which is something that we have sadly lacked in the past. The average voter, thinking that he paid no taxes, has been perfectly willing to load an almost unlimited burden on the backs of those who he thought were paying. How this has worked is very apparent today.

There is one person whom such a tax will, to a moderate degree, favor above others and that is the farmer. The farmer, by the nature of his work, is or should be more or less self-sustaining and independent. He should, and in many instances does, produce a large part of what he and his family consume, and as this does not pass through the ordinary channels of trade it would naturally bear no sales tax. Inversely, it can be seen by the same process of reasoning that the property tax strikes harder at the farmer than any one else in that his taxes must be paid in cash and, as indicated above, he turns a relatively small portion of his output into cash. Therefore, the advantage which the farmer would receive from a gross sales tax is perfectly obvious. In this state, where one-half the people live on farms and another fourth are classed as rural, this is a point of greatest importance, as the prosperity of our rural population is absolutely essential to our general prosperity.

THE MISSISSIPPI GENERAL SALES TAX

SENNETT CONNER, *Governor of Mississippi*

(*Review of Reviews*, October, 1932)

Business principles and methods have been recognized and applied to the fiscal affairs of the Mississippi state government. When our administration assumed control—in January of this year—we were confronted with the problem of providing for a large volume of inherited deficits. We were also called upon to do this in the face of diminishing revenues, from sources upon which the state had been accustomed to rely with reasonable safety in normal times.

The duty of safeguarding the state's credit has been recognized as our most sacred obligation, the full discharge of which is the highest form of public service. Our efforts have been largely in the field of administrative reform of adjusting governmental functions more accurately to the people's circumstances, as well as to their needs, and rendering governmental operations more efficient and less burdensome.

Our budget has been balanced by a reduction of operating costs and an increase of current revenues. Without discontinuing or seriously impairing any necessary governmental functions or services, we have, at a single legislative session, reduced governmental costs by one-third. This was accomplished because the Legislature, acceding to the request of the Governor, reversed the usual legislative procedure which had obtained in our state during the past hundred years, of first voting appropriations and then considering ways and means of providing revenue.

The state's income has been increased by levying a two per cent general sales tax, or consumers' tax, which will furnish the required additional revenues for the present biennium with the widest possible distribution of the burden. This wide distribution applies not only to the number paying the tax (which will include all persons), but to the load of the tax on each individual, since the burden is not allowed to accumulate as is the case with property taxes. It is distributed day by day, so that the citizen is never in debt to this state, his payments being made in such small amounts as never to become burdensome or unbearable.

In the regulation of his expenditures the taxpayer largely determines the amount of his sales tax payments. This is not true of any other form of taxation. The sales tax makes it unnecessary to levy large or unjust penalties on those who seek to develop resources and improve property, but rather encourages these activities so essential to progress and prosperity.

Another advantage of the consumers' tax is that it permits every citizen, however humble, to contribute his part, however small, to the support of his government. It awakens within the citizen who pays no other taxes a sense of his responsibility when he goes to the polls. He becomes tax conscious, and is more concerned about the competency and honesty of the candidate he supports. His patriotic impulses are stirred. He is proud that he has become a contributing citizen and is no longer merely a beneficiary of the state. Representation without taxation is an unhealthy condition. The consumers' tax is democratic.

Many states, including Mississippi, have long recognized the principle of the sales tax by levying taxes upon the sales of a limited list of articles or commodities. In many instances these taxes have been levied at such high rates that they have threatened confiscation, encouraged bootlegging and evasion, and resulted in oppression and inequity. They are generally known as "nuisance" taxes. It appears to be the height of inconsistency for those who condemn the principle of a low general sales tax to favor a high sales tax on a few commodities.

Four months were required to pass the general sales tax through the Mississippi Legislature. The opposition, largely limited to merchants and allied interests, was aggressive. Mass meetings were held throughout the state, and special trains brought large delegations to the capital to lobby with legislators against its enactment. A state-wide anti-sales-tax organization was formed and well financed, and almost all the newspapers bitterly denounced the measure and attacked those who supported it. It was freely predicted that the tax would destroy business, and even that the people would openly revolt against it. Theorizing economists were quoted to prove that the tax could not be enforced or collected, and that it was unsound and inequitable.

Today, after three months' experience with the sales tax in Mississippi, practically all opposition has vanished. The anti-sales-tax organization league no longer exists. Merchants are coöperating whole-heartedly. Some of its most bitter opponents have become its strongest defenders, and it is a rare exception to the general rule when any complaint or protest is heard from the consumer, to whom the tax is passed. Receipts to date from this Mississippi sales tax are in excess of estimates that were made at the time the legislation was enacted. In August collections ran 25 per cent above budget estimates.

The general sales tax is especially acceptable to Mississippi. We have few large net incomes and no great industries to tax. Our rich mineral resources lie undeveloped. Despite our wonderful climate, unexcelled health record, long growing seasons, and the fertility of our soil, we have more than twelve million idle acres. We need only settlers and investors. Development has been retarded because property taxes in Mississippi, as in many other states, have been too high. It is estimated that before the enactment of the sales tax more than 75 per cent of all tax revenues of the state and all political subdivisions were paid by property, and only 15 per cent of our people paid property taxes. Not only in Mississippi, but almost everywhere throughout the nation, it seems agreed that there must be a reduction in property taxes in order that investments may be encouraged and employment opportunities furnished. I would not favor a consumers' tax to be levied in lieu of all other taxes, but only as a part of a system levying taxes upon property, net incomes, and privileges. Under such a system all citizens pay in accordance with their privileges, abilities, and possessions.

In Mississippi, under normal economic conditions, it is possible for the general sales tax levied at a reasonable rate to eliminate all state taxes upon property and to permit a 50 per cent reduction in the present property tax rates of counties and municipalities. It can make possible the exemption from taxation of homesteads of limited value and of sufficient acreage to support the family. When we have accomplished this, which is the ultimate aim of those who have advocated the consumers' tax for our state, Mississippi's wonderful opportunities will be recognized, our natural resources developed, and our idle lands put to work.

It must be remembered that in Mississippi this sales tax is still in the experimental stage. Mississippi officials and our people generally are satisfied with its operation up to this time, but we make no wild claims for it. There remains no doubt that it will meet the immediate emergency for which it was adopted. Its success as a fixture in our revenue system will depend largely upon the coöperation and good will of our people, particularly those who are required to collect and remit it. Considered as a tax upon the privilege of doing business, it furnishes a most equitable basis for calculating the tax. But the present rate is probably too high. If it is accepted as a consumer's tax and passed to the purchaser, as was the legislative intent, it will hold great promise, and a much higher rate may be imposed without injury to business or complaint from the taxpayer.

SUMMARY ON SALES TAXES

The following quotations are taken from a recent volume entitled *Sales Taxes: General, Selective, and Retail,* published by the National Industrial Conference Board. This 79-page book should be read by everyone who is interested in sales taxes. The quotations are reprinted by permission.

Administration of General Sales Taxes

Although the administration of a general sales tax has proved to be practicable in foreign countries and in at least one state of this country, general experience has shown that the administration of the tax is by no means simple. The principal difficulties in administration arise out of: (1) the introduction of exemptions, (2) the distinction between sales and other contractual relations, (3) the classification of industries for rate purposes, (4) the devices adopted to prevent pyramiding, and (5) constitutional restrictions on the taxation of interstate sales. All these difficulties except the second and fifth result from modifications of a general sales tax introduced with a view to making it acceptable or workable as a method of taxation.

In every sales tax thus far tried certain exemptions have been allowed for economic, political, or administrative reasons. When once exemptions are permitted, the task of drawing the line between taxable and non-taxable concerns carrying on various activities is likely to strain the ingenuity of the administration and the courts. The difficulty in distinguishing transactions that fall within the classification of sales from other transactions is inherent in any sales tax, and experience has shown this difficulty to be particularly troublesome from the standpoint of administration.

One of the advantages that a sales tax has over a net income tax frequently pointed out is the ease of ascertaining the tax base, gross sales, as compared with the difficulties encountered in determining net income. This is undoubtedly true, but, on the other hand, the net income tax is free of certain difficulties with which the sales tax is afflicted, for example, devices to prevent pyramiding and administrative complications arising out of constitutional restrictions against burdening interstate commerce.

Notwithstanding these major difficulties encountered, the administration of a general sales tax has proved practicable, and the cost has not been prohibitive. When the difficulties of administering a general sales tax and a net income tax are compared, it does not appear that one method of taxation has any great advantages over the other.

The administrative problems presented by a general sales tax are also encountered in a lesser degree in the administration of retail and selective sales taxes, except those involved in methods of preventing pyramiding, classification of industries for rate purposes, and exemptions, in the case of selective sales taxes. The problem of dealing with interstate sales under retail and selective sales taxes would be simpler than under a general sales tax only because fewer interstate sales would be involved. One of the principal administrative difficulties presented by a retail tax is the distinction between retail and wholesale sales. The same type of problem is encountered in a general sales tax when different rates are applied to retail and wholesale sales.

Pyramiding of a General Sales Tax

The tendency of a general sales tax to become cumulative, or to pyramid by the addition of the tax to each successive sale, is frequently stressed as an objection to this method of taxation. The single-process manufacturers making only one of the component parts of the product must add the tax on each turnover, while the manufacturer who has brought all the necessary processes in production under one ownership will pay the tax only once. A general sales tax results in a discrimination against the single-process concerns in favor of the integrated concerns, since the former will be compelled either to add the accumulated tax to the price or to absorb it. There is little statistical evidence as to the effect of pyramiding on the integration of industry, but it is commonly believed that a tendency toward combination would be the result, especially in a highly industrialized state.

Various plans to prevent pyramiding have been devised in foreign countries, including (1) a provision for the collection of a lump sum sales tax with rates varying with the type of commodity but not for the individual concern, (2) a plan under which transfers from one branch to another of an integrated business are taxed, and (3) a system of licensing manufacturers so that a tax is payable only when a licensed seller sells to an unlicensed buyer. Of these three methods, the last mentioned, now used in Canada, appears to have attained the largest measure of success.

Selective Sales Taxes

In the selection of commodities for taxation the present ideal appears to be a commodity non-essential in character, widely used, and inelastic in demand, on which taxes will be easy to collect. Tobacco comes the nearest to having all these qualities. It is mainly for this reason that tobacco has been taxed by the Federal Government and is now being taxed in 13 states. If selective sales taxes are ever to become important sources of revenue, however, commodities will have to be included that do not possess all these ideal characteristics. In time of emergency the tendency will probably be to sacrifice the non-essential or luxury feature for commodities that will bring large amounts of revenue into the Treasury.

So long as selective sales taxes can be limited to luxuries and non-essentials, they will not meet with serious opposition, for the reason that any person who spends a substantial portion of his income on such things does so voluntarily. Moreover, the purchase of non-essentials and luxuries is in itself an indication of ability to pay. Even when the selection of commodities and services is confined to luxuries and non-essentials, it must be more or less arbitrary, because of the difficulty of defining a luxury or non-essential. In the United States and France the amount paid for a commodity has frequently been used as a basis of a distinction between essentials and non-essentials, as well as those qualities of a commodity or a service which indicate that it is used only by the wealthier classes. Experience with selective sales taxes in this country as well as in France points to the importance of selecting the right commodities and services in the first instance and cautions against including too many commodities or services in the list of taxables. Finally, the practicability of a

properly drawn selective sales tax from the standpoint of administration and yield has been demonstrated by both the Federal Government and the states.

Retail Sales Tax

A retail sales tax is imposed by seven states, although Kentucky is the only state in which retailers have been singled out as a special object of taxation. In the remaining states retailers are only one of several types of producers or distributors taxed on their sales.

Certain advantages are claimed for a retail sales tax over a general sales tax, namely: (1) a retail sales tax does not pyramid and thereby encourage combination; (2) the collection near the consumer reduces to a minimum the carrying charges of the tax; and (3) the administration is simpler than that of a general sales tax. The principal objections brought against a retail sales tax are: (1) administrative difficulties have been encountered in distinguishing wholesale from retail sales; (2) numerous small dealers who do not keep proper records present a problem of administration; and (3) when a retail sales tax is imposed in a single state, greater disturbance of business may result than in the case of a national tax, because of competition with other states in which no sales tax is imposed and different economic conditions prevail. The last difficulty is most pronounced in those states having large cities located near the state lines, for example, New York City, Chicago, and St. Louis. When the rates of retail sales taxes are graduated, as in Kentucky, chain stores and large stores are discriminated against in favor of the smaller stores. The margin of profit in many lines of retailing is small, and a sales tax would be particularly disturbing during the period of adjustment necessary in the shifting of the tax.

Sales Taxes: General, Selective, and Retail

Taxation of the Sales of Commodities and Services in the United States, 1932.*

Source: National Industrial Conference Board, "Current Tax Problems in New York State"; and state and federal laws. (Reprinted by permission from *Sales Taxes: General, Selective, and Retail,* National Industrial Conference Board.)

Jurisdiction	Commodity or Service	Rate
Federal Government	Cigarettes	Weighing not more than 3 pounds per 1,000, $3.00 per 1,000
		Weighing more than 3 pounds per 1,000, $7.20 per 1,000
	Cigars	Weighing not more than 3 pounds per 1,000, 75 cents; weighing more than 3 pounds per 1,000, rates vary according to the retail price from $2.00 to $13.50 per 1,000
	Manufactured tobacco and snuff	18 cents per pound
	Cigarette paper	0.5 cent per package of 50 papers or less
	Tubes	1 cent on 50 tubes or less
	Admissions and dues	1 cent for each 10 cents in excess of $3.00; in case of a prize fight or boxing match, 25% on admission price of $5.00 or more
		10% of initiation fees and annual dues to any social, athletic club, or organization
		5% of amount of excess charge, up to 75 cents, for admission tickets by agencies or brokers; 50% where excess charge exceeds 75 cents
		1½ cents on each 10 cents or 20% of price paid for food, refreshments, or reservations at roof gardens, cabarets, restaurants offering performances or similar entertainments, where admission price is in excess of 50 cents.
	Pistols and revolvers	10%
	Passage tickets to any foreign port or place not in United States, Canada, Mexico, or Cuba	Costing $10 to $30—$1.00 Costing $30 to $60—$3.00 Costing in excess of $60—$5.00
	Playing cards	10 cents per pack
Alabama	Cigars and cigarettes	15% of wholesale price
	Carbonic acid gas	2 cents per pound used
Arkansas	Cigarettes	$2.25 per 1,000
	Cigars	10% of retail price
	Malt and malt extract	1 cent for each 10 cents or fraction of the retail price
Connecticut	Admissions to places of amusement	Class A—seating capacity 2,500 or more—$12.00 per day
		Class B—seating capacity 2,000 to 2,499—$8.00 per day
		Class C—seating capacity 1,800 to 1,999—$5.00 per day
		Class D—seating capacity 1,500 to 1,799—$4.00 per day
		Class E—seating capacity 1,000 to 1,499—$3.00 per day
		Class F—seating capacity 750 to 999—$2.00 per day
		Class G—seating capacity 500 to 749—$1.50 per day
		Class H—less than 500—$0.50 per day

*Excluding motor fuel taxes, gross receipts taxes on public utilities, and certain sumptuary taxes on ammunition, billiards, etc.

Jurisdiction	Commodity or Service	Rate
	Gross sales of unincorporated manufacturers and merchants	Wholesale merchants, 25 cents for each $1,000 of gross income Retail merchants, $1.00 for each $1,000 of gross income Manufacturers, $1.00 for each $1,000 of gross income Minimum tax of $5.00
Delaware	Gross sales of certain occupations and businesses	$5.00 plus one fiftieth of 1% of the gross receipts of the previous year.
Georgia**	Cigarettes	20% of the retail price until April 1, 1933; thereafter 10%
	Cigars	10% of retail price
	Gross sales in excess of $30,000	Manufacturers—0.05% of gross value Merchants Wholesalers ....0.1% of gross receipts Retailers ....0.2% of gross receipts Utilities ....0.3% of gross receipts Amusements ....0.3% of gross receipts All others ....0.2% of gross receipts
	Carbonic acid gas	4 cents per pound used
Iowa	Cigarettes	Weighing not more than 3 pounds per 1,000, 1 mill on each cigarette; weighing more than 3 pounds per 1,000, 2 mills on each cigarette.
	Cigarette papers or wrappers	50 papers or less, 0.5 cent; 50 to 100 papers, 1 cent; over 100, 0.5 cent for each 50 papers or fraction
Kansas	Cigarettes	2 cents on each 20 cigarettes or fraction
	Cigarette paper	1 cent per 50 papers
Kentucky	Gross retail sales	Up to and including $400,000—5 cents for each $100 Over $400,000 to and including $500,000—$200 plus 10 cents for each $100 Over $500,000 to and including $600,000—$300 plus 25 cents for each $100 Over $600,000 to and including $700,000—$550 plus 40 cents for each $100 Over $700,000 to and including $800,000—$950 plus 55 cents for each $100 Over $800,000 to and including $900,000—$1,500 plus 70 cents for each $100 Over $900,000 to and including $1,000,000—$2,200 plus 85 cents for each $100 Over $1000,000—$3,050 plus $1.00 for each $100
Michigan	Allwort	25 cents per gallon
	All containers of malt syrup or malt extract	5 cents per pound
Mississippi	Cigarettes	1 cent for each 5 cents or fraction of usual retail selling price.
	Cigars	20% of usual selling price
	Admissions to places of amusement	1 cent for each 10 cents or fraction
	Volume of business in excess of $1,200	Manufacturers: Brick, tile, cement, and clay products—1% Bottled soft drinks and ice factories—1% Ice—one fourth of 1% Cottonseed oil mills—one fourth of 1% All other—one fourth of 1% Business of selling tangible property; Wholesalers or jobbers—one eighth of 1% Motor vehicles—1% All others—2% Contracting—1% Theatres and public amusements 1% Mines and oil companies: Oil—2% Natural gas—2½% Other mineral products and timber—2%

**The gross sales tax is alternative to the income tax.

Jurisdiction	Commodity or Service	Rate
		Public utilities: Gas, electricity, and power Used for industrial purposes—1% Used for any and all purposes—2% All others—2% All other businesses, professions, or trades—2%
Missouri:		
St. Louis Kansas City	Gross sales of manufacturers and merchants	Manufacturers' output Merchants' domestic sales } one tenth of 1%
North Carolina	Gross sales of wholesale and retail merchants	Wholesale sales: Not more than $50,000—$12.50 More than $50,000 and not more than $125,000—$25.00 More than $125,000 and not more than $250,000—$50.00 More than $250,000 and not more than $375,000—$150.00 More than $375,000 and not more than $500,000—$200.00 More than $500,000 and not more than $625,000—$250.00 More than $625,000 and not more than $750,000—$300.00 More than $750,000 and not more than $875,000—$350.00 More than $875,000 and not more than $1,000,000—$400.00 Retail sales: Not more than $5,000—$5.00 More than $5,000 and not more than $12,500—$12.50 More than $12,500 and not more than $25,000—$25.00 More than $25,000 and not more than $50,000—$50.00 More than $50,000 and not more than $125,000—$125.00 More than $125,000 and not more than $250,000—$250.00 More than $250,000 and not more than $375,000—$375.00 More than $375,000 and not more than $500,000—$500.00 More than $500,000 an additional tax of $250.00 for each $250,000 or major fraction thereof of such gross retail sales
North Dakota	Cigarettes	Weighing not more than 3 pounds per 1,000, 1.5 mills on each cigarette; weighing more than 3 pounds per 1,000, 2 mills on each cigarette
	Cigarette paper	Package containing not more than 50 papers, 0.5 cent; 50 to 100 papers, 1 cent; more than 100 papers, 1 cent for each 50 papers or major fraction
	Tubes	50 tubes or major fraction, 1 cent
Ohio	Cigarettes	1 cent on every 10 cigarettes
Pennsylvania	Gross sales	Retail merchants, one tenth of 1%, plus $2.00 Wholesalers, one twentieth of 1%, plus $3.00 Sales on exchanges, one fortieth of 1%
South Carolina	Cigars	Weighing not more than 3 pounds per 1,000, 1 cent for each 10 cigars or fraction Weighing more than 3 pounds per 1,000, retailing for 3 cents each or less, $3.00 per 1,000 Weighing more than 3 pounds per 1,000, retailing more than 3 cents each, $10 per 1,000

Jurisdiction	Commodity or Service	Rate
	Cigarettes and smoking tobacco	Each package retailing for 5 cents or less, 1 cent Each package retailing for more than 5 cents, 1 cent for each additional 5 cents or fraction
	Snuff and chewing tobacco	1 cent for each 3 ounces or fraction
	Playing cards	5 cents on each 50 cents or fraction of retail price
	Candy	1 cent for each 10 cents or fraction, if retailed at 50 cents per pound or more
	All syrups used in fountain drinks	76 cents per gallon
	Bottled drinks and all drinks not made with syrup	1 cent for each 5 cents or fraction of retail price
	Admission to places of amusement	1 cent for each 10 cents or fraction
South Dakota	Cigarettes	Weighing not more than 3 pounds per 1,000, 1.5 mills on each cigarette; weighing more than 3 pounds per 1,000, 4 mills on each cigarette
	Cigarette papers	Package containing more than 50 papers, 0.5 cent; 50 to 100 papers, 1 cent; more than 100 papers, 1 cent for each 50 papers or fraction
	Tubes	50 tubes or fraction, 1 cent
	Malt extracts, malt syrups, derivatives, or combinations thereof	10% of the retail price
Tennessee	Cigarettes	0.2 cent per cigarette if retail price is 1 cent or less; if more, 20% of retail price
	Malt	5 cents per pound or fraction
	Carbonic acid gas	5 cents per pound produced, sold, or used
Texas	Cigarettes	\$1.50 per 1,000, if weighing not more than 3 pounds \$3.60 per 1,000, if weighing more than 3 pounds
Utah	Cigarettes	Weighing not more than 3 pounds per 1,000, 1 mill on each cigarette Weighing more than 3 pounds per 1,000, 2 mills on each cigarette
	Cigarette papers or wrappers	50 papers or less, 0.5 cent; 50 to 100 papers, 1 cent; over 100, 0.5 cent for each 50 papers or fraction
W. Virginia	Gross sales or gross income in excess of \$10,000	Extractive industries: Coal mining, 0.42% Oil production, 1% Natural gas production, 1.85% Limestone sand, etc., 0.45% Timber production, 0.45% Manufacturing: Manufacturing sales, 0.21% Merchandising: Retail, 0.20% Wholesale, 0.05% Financial and public utilities: Banks, 0.30% Steam railroads, 1% Street railways, 0.40% Pipelines, 1% Telephone, telegraph, express, light, and power, 0.60% Others, 0.40% Contractors, 0.30% Amusements, 1% All other, 0.30%

A TAX PROGRAM FOR NORTH CAROLINA

A. W. McAlister

(Assembled and Elaborated for the N. C. Conference for Social Service)

The tax program which I am about to submit has not been passed upon by this Conference, and while it may not express the sentiments of every member, it probably does express the judgment of the Conference and of its Committee on Taxation as a whole. There is claim for little if any originality in this tax program beyond its forms of expression. Included in it is the major part of "A Declaration of Taxation Principles," issued by the Conference on January 18, 1931, and prepared by Dr. Clarence Poe, Chairman of the Taxation Committee of the Conference. In the preparation of the tax program I am about to present, draft has been made freely upon the publications of the National Tax Association and the expert tax knowledge of Dr. E. R. A. Seligman, Professor of Economics of Columbia University; Dr. S. H. Hobbs, Jr., of the University of North Carolina; Dr. Albert S. Keister, of the University of North Carolina College for Women; Dr. Fred W. Morrison, of the North Carolina Tax Commission; and others. This acknowledgment of the good offices of those consulted on the subject does not imply any responsibility on their part for the conclusions or recommendations presented in the proposed tax program.

Taxation Intimately Related to the Social Welfare

The social welfare is vitally affected and largely determined by economic factors. Taxation is a basic economic factor and is intimately related to the social welfare. "The greatest mutuality of good" is society's objective, and taxation is the chief agency for attaining that objective. The purpose of taxation is the promotion of the common good and social progress. Taxation is necessary, except in an individualistic state of society. Prevailing prejudice against taxes is probably a hang-over from rugged individualism on the one hand and the exactions of arbitrary rulers on the other. Dislike of taxes is inherently unsocial, is neither necessary nor inevitable, and may be the fault of the form or method. It is conceivable that taxes may be imposed so justly and with such social benefit, and may be administered so wisely, that people will not be averse to them.

Let Tax Reform Begin with Elimination of War

If taxes were distributed fairly, and there were eliminated the tax burden of war and preparation for war, they would not be burdensome anywhere in America today. Let tax reform therefore begin with the elimination of war and preparation for war.

The Principle of Tax Progressively Proportioned to Ability to Pay

One generally recognized principle of taxation is that of benefit received—that is, recipients of special governmental favors are called upon to recompense the government by means of corresponding special taxes, in addition to contributing to the general costs of government. A more important basic first principle of a sound tax system is universal contribution to the support of the state progressively proportioned to ability to pay. Let every tax be measured by this yardstick if we want to keep in the middle of the road. It has been found convenient in tax

administration to exempt the small holder of income or property. It would not be wise nor desirable to try to change this, but the ideal of taxation would be some contribution, however small, by every citizen of a state. This principle of universal progressively proportional contribution is the one that obtains in the financial support of churches and community chests. Its soundness and fairness have been thoroughly established. The tax of a state, if imposed in accord with this principle, is nothing more than a magnified super-community chest with the power of enforcement added. If this principle of universal progressively proportional contribution is accepted, then the ancient principle of uniformity automatically disappears, for the ideas of progressive proportion and uniformity are diametrically opposed. Legislation of 1931 increased the tax on incomes in the lower brackets from three to four times as much as the tax on incomes in the higher brackets—to be exact, an average increase of 74 per cent in the lower brackets as against a 20 per cent increase in the higher brackets. This could not have happened but for the constitutional limitation of 6 per cent. If the idea of a tax progressively proportioned to ability to pay is accepted, tax limitations will have to be removed. It will require constitutional amendments to remove tax limitations and the requirement of tax uniformity.

Subject to this controlling principle of universal progressively proportional contribution, the following recommendations are submitted:—

1. As far as practicable every form of tax should be progressive or graduated to an equitable scale.

2. The income tax, the tax on property tangible and intangible, and the business tax are all recognized by the laws of North Carolina, seem to be necessary, are sound in principle, and should operate satisfactorily as long as they are imposed and administered on an equitable basis.

Selected Commodity or Luxury Tax

The state should tax the gains of thrift, toil, and enterprise less, the gains of chance, gift, or inheritance more; luxuries should bear a larger burden than necessities; unearned incomes a larger burden than earned incomes. A consumption or sales tax is justified to meet an emergency. Such an emergency seems to exist in North Carolina at this time, and if such a tax is imposed it should be confined to luxuries and dispensables and should not extend to necessities. Indeed, there is a growing sentiment that luxury taxes should have a place in our system of state taxation, particularly where income and inheritance sources of taxation have been fully utilized.

4. The burden of supporting policies of state government should be equitable and proportional as between counties as well as between individuals.

The Overburdened Land

5. The fact should be realized that visible, tangible, and immovable forms of property are by their nature likely to bear more than their just share of taxation. Land has in the past carried the greater part of the taxation load, and has been exhausted thereby, particularly agricultural land. It is not only fair but sound economics to adopt a taxation program that will give land a chance to recover from its present impoverished plight. This will hasten the recovery of land and agriculture, and the recovery of land and agriculture will hasten recovery all along the line. After that recovery has been accomplished, the state should adopt a sanely progressive land tax, which will favor the small farmer and home owner and encourage the owning and improving of small tracts of land. This will encourage home ownership, so necessary to

good citizenship and the wholesome development of the state, and at the same time will serve as an effective means of promoting the savings habit and increasing the wealth of the state.

Taxes Payable in Monthly or Quarterly Installments

6. Every effort should be made to make any tax that is levied operate equitably and efficiently. To this end we recommend that provision be made for payment of property taxes in monthly or quarterly installments instead of once a year. This would ease the burden on the taxpayer, save our counties and cities from borrowing large sums on tax anticipation notes, promote economy in administration by spreading the work of tax collection evenly throughout the year, and assist in keeping the budget balanced by letting officials know at all times how revenues are running.

Corporation Franchise Tax in Lieu of Reduced Property Tax

7. The demand for further reduction of the property tax seems irresistible, and if property taxes are further reduced we suggest that the franchise tax on corporations be increased in order to get from the corporations at least as much total taxes as they are paying at present.

Taxation Policies Should Encourage Thrift, etc.

8. With due regard to the principle of ability to pay, taxation policies should encourage and not discourage (a) thrift, (b) beauty, and (c) the conservation of natural resources. For example, the man who paints his home and beautifies his grounds should not have his taxes increased in consequence. The man who terraces and enriches his land should not be taxed more heavily than the man who allows his soil to wash away to the perpetual detriment of the state.

A More Satisfactory Method of Forest Taxation

9. The uniformity clause should be removed from the constitution so as to permit needed changes in property taxation, including the adoption of a more satisfactory method of forest taxation.

Inheritance Taxes vs. Excessive Income Taxes

10. Increased inheritance taxes, properly graduated as to kinship and amounts, in so far as it is practicable to collect them, are preferable to excessive income taxes. This is true not only because of the greater consideration due those who have earned their possessions, but also because men of ability in active life often re-invest their incomes in their work to the further enrichment of the community and state, while inheritances falling to those who have not earned them are frequently wasted.

A Way Must Be Found to Reach Intangibles

11. If it is either impossible or unjust to make intangibles pay the same rate of taxation as other forms of property, this fact should be realistically faced and plans made for collecting by some means the largest just and practicable amount from these sources. To abandon the taxing of intangibles would be to disregard the principle of universal proportional contribution as well as a confession of impotence. If records of moneys, bonds, mortgages, and other intangibles such as are now available are inadequate, additional records can and should be devised. There must be a way and it must be found.

Publicity of Assessments

12. Publicity of assessments should be recognized as perhaps the best antidote to favoritism and inequality.

Non-Partisan Tax Machinery and State Supervision of Assessments

13. The state is contributing increasingly to schools and roads and other purposes once regarded as local. This justifies and necessitates such effective state supervision of assessments as will constantly insure an equitable distribution both of benefits and burdens. Without any reflection whatever upon the ability and efficiency of our present state tax machinery, in order that it may not at any time be hampered by politics, the most modern and effective set-up would seem to be a non-partisan continuing advisory tax commission or board, appointed by the Governor with the approval of the legislature, with terms of office so spaced that a majority could not be appointed in any one administration; with power to supervise and, if advisable, to control assessments, even reaching down to the supervision of assessments of tax district, county, city or town, where practicable and necessary; with power to make recommendations for the improvement of our tax system; with power to appoint as its executive officer the state tax commissioner, but not to appoint a member of said commission or board; and other powers usual to such commission or board.

Reassessment of Real Estate and Without Delay

14. All real estate assessed at more than its real value should be reduced to that valuation without delay, and this must be done regardless of any threatened loss of revenue. These losses should be made up by raising valuations on all properties now under-assessed, together with the adoption of any new forms of taxation that can be equitably levied.

Corporation Taxes and Stockholders' Income Tax

15. We believe that corporations, whether foreign or domestic, should pay such taxes on their property and on the value of their franchises as are reasonable and just, but we also believe that the stockholder in these corporations should pay an income tax on the dividends he receives from his investment in corporation securities. This is no more objectionable as double taxation than to tax the owner of real estate on the real estate as property and on the income from the real estate under the income tax.

Efficiency, Economy, and Consolidation of Counties, etc.

16. To reduce tax burdens and yet not set back the agencies of modern civilization (such as educational, health, agricultural, and welfare work), men and women citizens must more earnestly study all plans for efficiency and economy in government: notably the consolidation of counties or county functions; city and county managers or commissions; stricter regulation of bond issues and taxation; better safeguarding of public funds; and the adoption of well-considered standards of efficiency for all forms of public service.

Wholesale, Ill-considered Reductions might Prove Expensive

17. While we favor every effort toward true economy in governmental expenditures, we do not believe that wholesale, blanket salary and wage reductions are necessarily true economy. The danger is that

these reductions will drive from the state or from the public service some of its ablest and most valuable personnel. We therefore advocate, before further blanket salary reductions are made, that careful thought be given to the probable effect of such reductions on the gifted, highly-trained men and women now serving the state.

The Principle of the Balanced Budget and a Word of Caution

18. We believe in the principle of the balanced budget. We question, however, the advisability of our state and local governments' insisting on balancing their budgets every year regardless of business conditions. In depression years, when personal and corporate incomes fall off, the attempt to balance the budget means higher tax rates and more onerous tax burdens at the very time when private and business burdens are heaviest. In times of normal or properous business higher taxes can be borne with much less distress than in periods of depression. We believe it would be sound public policy, therefore, to plan our budgets partially in terms of the business cycle rather than exclusively in terms of one year. This would mean incurring modest deficits in depression years, the notes issued to be paid off in the more prosperous years following. To make such a program effective and practicable, the state and local governments should carefully safeguard their credit standing so that notes issued in depression years should be readily marketable at reasonable rates of interest.

Let Highway Fund Surplus be Applied to most Pressing Needs of State

19. We suggest during these trying times, when a persistent deficit faces the state's general fund while the highway fund has a considerable cash surplus, that the legislature might well divert a part of this surplus so as to help maintain the fundamental functions of government rather than to expend the money on further new construction of highways. This would involve a sacrifice of federal aid for the time being, but even so the state would be the gainer. Why spend our money in directions not needed in order to get an additional amount from the federal government to spend for something we do not need? Would it not be the part of wisdom to pass up the federal aid and apply what we can spare from the highway fund to the most pressing needs of the state?

State's Taxation System should be Comprehensively Adjusted by Constitutional Amendments

20. The state's taxation system should not be reformed piecemeal but a comprehensive readjustment should be worked out, fair to all classes, and those features requiring it should be submitted as constitutional amendments.

Research Work in Field of Taxation Should be Continuous

21. Taxation changes and experiments are coming so rapidly that we deem it highly important for the State of North Carolina and for the Conference to keep abreast of these newer developments. We therefore recommend that the state preserve and strengthen its present research work in the field of taxation, and that the Conference continue as an active functioning body its committee on taxation.

The State of North Carolina must Carry on
Hard Work, Wise Economy, and Surplus Wealth must See to That

22. In conclusion, there is full warrant for the claim that North Carolina is second to no other state in its system of roads, its modern

school buildings everywhere, its up-to-date public health system, and its sane and sound provisions for the social welfare. All these facilities have been honestly and wisely planned. They are among the state's most valuable possessions. Without them social progress must halt. Not to continue to use them and to derive from them all the benefits they can confer will be unbusinesslike, wasteful, and retrogressive. The ship of state will not be salvaged by throwing overboard its cargo. The state will not be advantaged by tearing its garments or by casting any aside. The part of sanity and courage is for the commonwealth to tighten its belt merely, and bend itself with relentless devotion to the task of conserving what it has achieved—conserving by saving and self-denial and unremitting work. Suggestions of retrenchment involving curtailment of governmental bodies or activities that are made in general terms only are not to be taken seriously. To be entitled to respectful consideration by intelligent men and women, such suggestions must specifically name the curtailments contemplated and the tax saving to be effected thereby. Such suggestions, to be of value, must be made in a spirit of large-visioned constructiveness and must be closely scrutinized as to their unbiased disinterestedness. Let the program be to cut no more new cloth for a season; to rest for a time with the roads and schoolhouses that we have; to economize in the handling of these precious possessions; to effect a reduction in expense of administration proportionate to the reduction in the cost of living; and after those things have been done, *to carry on, to carry on,* permitting no crippling of educational, health, and social progress; and, lastly, to this end to apply justly and fearlessly the principle of ability to pay to the surplus wealth of the state, giving it an opportunity to justify its existence, an opportunity to justify the privilege it enjoys of using in its creation and accumulation the state's priceless human and natural resources, an opportunity to lend a hand in a critical hour, and to spend its surplus strength upon the salvation of the very civilization upon which it must build whatever structure the future may hold for it.